

Pints, Putts, and Politics:
An Analysis of Minnesota's Municipal Liquor Stores and Golf Courses

MPP Professional Paper

In Partial Fulfillment of the Master of Public Policy Degree Requirements
The Hubert H. Humphrey School of Public Affairs
The University of Minnesota

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May 13, 2015

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Acknowledgements

The author would like to express special recognition to the following individuals for their assistance in providing data and participating in interviews:

Mr. John Jernberg, Office of the State Auditor

Ms. Shawnda Kisner, Liquor Store Manager, City of Blackduck

Ms. Christina Regas, Blackduck City Administrator

Mr. Eric Ritter, Interim Manager, Wild Marsh Golf Course

Mr. Joseph Abood, General Manager, Braemar Golf Course

Mr. Gene Gilbert, City Clerk, Howard Lake

Ms. Brenda Visnovec, Liquor Operations Director, City of Lakeville

Mr. Sloan Wallgren, Recreation Program Coordinator, City of Mendota Heights

Ms. Kristen Schabacker, Finance Director, City of Mendota Heights

Mr. Daniel Baert, Park Superintendent, City of Pierz

Mr. Scott Saeher, Pierz City Administrator

Mr. Bill Fillmore, Liquor Operations Director, City of Richfield

Mr. Stephen Sarvi, Rushford City Administrator

Mr. Sam Griffith, Sandstone City Administrator

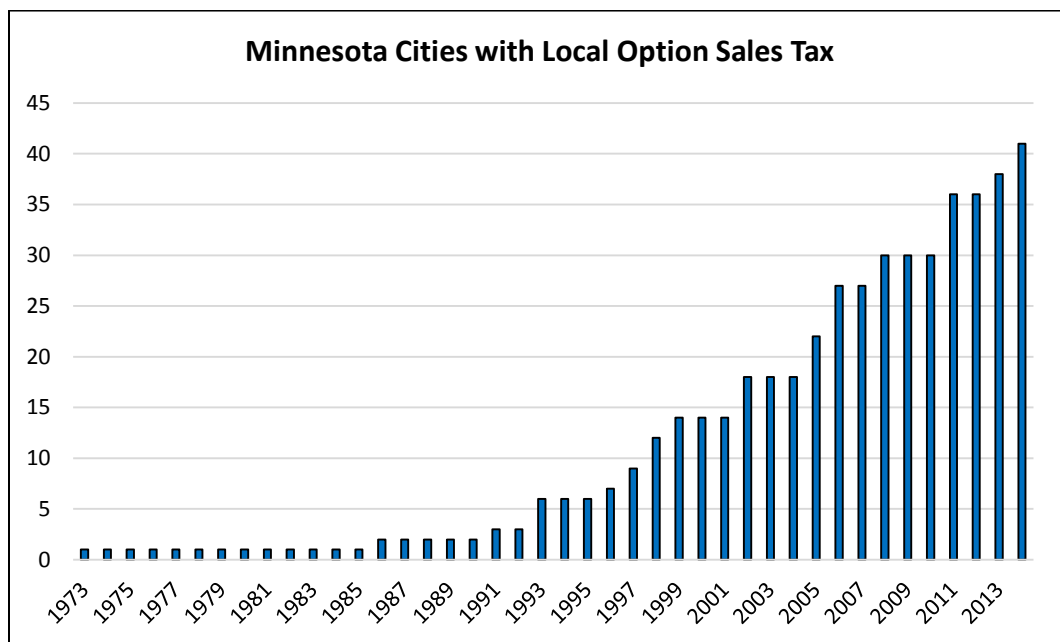
Background

In recent years, many government services have increasingly become privatized. Supporters of privatization believe it leads to smaller government, lower-cost or higher-quality services, and in some cases an immediate influx of cash to help overcome a short-term budget crisis. However, government ownership is an interesting exception to this trend. Governments have the power to not just regulate the private sector, but actually own and operate an enterprise. Enterprise funds are utilized by city governments when most of the costs of the activity are provided through user fees. Some enterprise activities are designed to be profitable, whereas others are intended primarily to provide a service or improve the quality of life and should thus aim to break even. Common necessary enterprises include sewer, water, or electric utilities. Quality of life enterprises might include a swimming pool, airport, youth recreation program, or a community center. These enterprises generally strive to break even so as to avoid subsidization from general funds and to align with the belief that governments should not have a profit motive. The exception is for-profit enterprises, which should be profitable and whose earnings can be transferred to pay for other city services, consequently making the city government less dependent on other sources of revenue, such as property taxes or state aid. Public criticism and larger questions about the appropriate role of government can arise when for-profit enterprises need to be subsidized by general funds. In Minnesota, cities operate two unique enterprise activities that are highly debated and warrant further investigation: liquor stores and golf courses.

Review of Previous Research

City governments have historically relied on property taxes for a large portion of their annual revenue, but changes in recent years in intergovernmental aid and increases in the costs of providing basic services have led many cities to either cut services, seek new sources of revenue, or increase the revenue generated from existing sources, such as by raising the price of parking tickets,¹ local impact fees, and licenses. Research² by the Minnesota House of Representatives suggests that an increasing number of city governments in Minnesota are implementing local option sales taxes in order to generate additional revenue, often times for large capital projects.

Figure 1. Minnesota Cities with Local Option Sales Tax



Source: Research Department, Minnesota House of Representatives

¹ Nina Munk, "The Golden Goose," *Forbes* 152, no. 12, (1993): 126-126.

² Research Department, Minnesota House of Representatives, "Local Sales Taxes in Minnesota," accessed May 10, 2015, <http://www.house.leg.state.mn.us/hrd/pubs/localsal.pdf>.

Meanwhile, Jang and Kwon suggest in their 2014 publication³ that cities are also relying more on fee-supported enterprise services than in the past. Their research concludes that cities that rely more heavily on own-source revenue are better positioned to design enterprise funds, and that cities with a mayoral form of government are more likely than cities with a professional city manager to increase such fee-based services, suggesting that one of the benefits of enterprise funds is their ability to help politicians avoid the scrutiny associated with raising property taxes. Jang and Kwon also suggest that despite their regressive nature, user fees are more common in low-income cities because they have a “thinner” tax base from which to collect property taxes. Research by Tyer⁴ examines municipal water and electric enterprises in South Carolina. Tyer suggests that large transfers from utilities to the general fund mislead the public into believing that their property taxes provide sufficient revenue for government services, when in fact they do not. He also raises the question of whether raising the cost of utility fees based on general budget needs changes a utility enterprise from a fee for service to a tax. A 2000 publication⁵ by Bunch suggests that future researchers use “case studies of individual cities to explore why particular enterprise funds were added or eliminated” in order to “provide some insights regarding the advantages and disadvantages of enterprise fund usage.” A 2008 study⁶ by researchers at Ohio State University that explored some of the economic benefits of four municipal golf courses in Ohio, as the researchers determined this kind of study was otherwise lacking. Research⁷ was also published in a 2013 issue of *Public and Municipal Finance* that discussed the declining economic

³Hee Soun Jang and Myungjung Kwon, “Enterprising Government: The Political and Financial Effects of Fee-Supported Municipal Services,” *Public Administration Quarterly* 38, no. 2, (2014): 128-162.

⁴Charlie B. Tyer, “Municipal Enterprises and Taxing and Spending Policies: Public Avoidance and Fiscal Illusions,” *Public Administration Review* 49, no. 3 (1989): 249-256.

⁵Beverly Bunch, “Changes in the Usage of Enterprise Funds by Large Governments,” *Public Budgeting and Finance* 20, no. 2, (2000): 15-29.

⁶Hertlein et al, “Impact of Planned Golf Course Development on Four Southwestern Ohio Communities,” (The Ohio State University, 2008).

⁷Ingram et al, “The Declining Economic Viability of Municipal Golf Courses,” *Public and Municipal Finance* 2, no. 1, (2013): 46-55.

viability of municipal golf courses in the state of Florida. Locally in Minnesota, the nonprofit research organization Freedom Foundation of Minnesota has published two reports criticizing municipal liquor stores and golf courses and suggesting that cities should get out of the business and leave these services to the private sector to provide.

Research Questions

This research will explore the following questions: **1.** What is the financial impact of Minnesota's municipal liquor stores and golf courses on revenues compared to the alternative of private ownership? **2.** What are the related management, economic, and/or political issues that influence the performance of Minnesota's municipal liquor stores and golf courses? **3.** Given the findings of the two previous questions, what are the arguments for and against operating a municipal liquor store or golf course that local government officials should consider?

Methods

The Minnesota Office of the State Auditor provides financial reports for all of the state's municipal liquor stores since 1995. A data request was also made with the office for similar information about municipal golf courses; comparable data was received dating back to 1986. Ten cities were chosen for more in-depth case studies – five cities with liquor stores and five cities with golf courses. Cities were selected that represented a variety of populations, geographic locations, and met the following criteria regarding net income:

- 2 cities with historically profitable enterprises
- 2 cities whose enterprises have generally been cost neutral
- 2 cities that have repeatedly required subsidization from general funds
- 2 cities that have recently sold off or discontinued their operations

- 2 cities that have recently made or are planning to make additional investments

Efforts were made to interview a knowledgeable city employee from each city, generally the city administrator or the manager of the respective liquor store or golf course. Interviews provided additional insight into the management, economic, and political issues related to enterprise activities that are otherwise unknown when looking only at data. Local newspaper articles and city council meeting minutes were also located to provide further background information when appropriate. The most recent comprehensive annual financial report (CAFR) or audited budget was also requested and obtained for each city. Using property tax records from the Minnesota League of Cities and housing data from the U.S. Census Bureau, the property tax impact of net transfers by enterprise funds to or from each city's general fund was calculated.

The report is organized so as to first discuss the history of municipal liquor stores in Minnesota, followed by a review of statewide municipal liquor store trends and patterns within the alcoholic beverage industry as a whole. Five case studies (Blackduck, Howard Lake, Lakeville, Richfield, and Rushford) are examined and some general analysis is provided. The report continues by following the same format for municipal golf courses, beginning with a discussion of the golf industry in both the United States and Minnesota and continuing with an examination of statewide municipal golf course performance and five case studies (Buffalo, Edina, Mendota Heights, Pierz, and Sandstone). Finally, the paper concludes by offering some recommendations for local government officials who might be pondering the future of their respective liquor store or golf enterprise activities.

History of Municipal Liquor Stores in Minnesota

The 18th Amendment to the Constitution, establishing the prohibition of liquor, was ratified in 1919. The “manufacture, sale, or transportation of intoxicating liquor” was banned until 1933, when the 18th Amendment was repealed by the 21st Amendment.⁸ Following the end of prohibition, the control of liquor transitioned from being a federal issue to a state issue, with each individual state establishing its own regulatory laws. In 1933, Minnesota passed the Liquor Control Act, which established the office of Liquor Control Commissioner and initial policies regarding licensing and oversight.⁹ Licenses were not granted in counties without electors first choosing to be a “wet” rather than a “dry” county. Even within a “wet” county, a city government could choose to remain “dry” by imposing its own stricter regulations. As a result, licensing and the sale of liquor varied across the state of Minnesota by county and city. In 1965, statute changes resulted in all Minnesota counties becoming “wet” as well as all cities, unless a city had previously held a local referendum in which electors voted to be “dry.”

Today, states continue to have different levels of government regulation regarding the sale of alcohol. For example, in Wisconsin, an individual can purchase alcohol at their local grocery store, whereas in the state of Pennsylvania, one would need to go to a state owned retail store. Most states leave liquor sale operations to private businesses, but prove some rules regarding hours of operation and the type of retail establishment (e.g. grocery store) that is eligible for a license. However, according to the National Alcohol Beverage Control Association, 17 states are currently known as “Alcoholic Beverage Control” states and have more direct

⁸ “Prohibition of Liquor,” *National Constitution Center*, accessed April 11, 2015, <http://constitutioncenter.org/constitution/the-amendments/amendment-18-liquor-abolished>.

⁹ “Session Laws Chapter 46 – S.F. No. 160,” *Office of the Revisor of Statutes*, accessed April 11, 2015, <https://www.revisor.mn.gov/laws/?year=1934&type=1&doctype=Chapter&id=46>.

government involvement. Minnesota is one of four additional states that operate some sort of hybrid model between privatization and state control.¹⁰

Minnesota State Statute 340A.601 states that “a city having a population of not more than 10,000 may establish, own, and operate a municipal liquor store.”¹¹ Cities with populations greater than 10,000 but who established their store prior to 1967 are grandfathered and may continue to operate their store. If a municipal liquor store operates at a net loss in any two of three consecutive years, a public hearing must be held as to whether or not the city should continue to operate a municipal liquor store. While the advantages of government ownership versus privatization can be debated, municipal liquor stores were founded with three primary purposes. First and foremost, municipal liquor stores were initially established after prohibition in order to maintain control and oversight over the sale of alcohol. In rural areas of Minnesota, municipal liquor stores also met a demand that might otherwise have gone unmet by private businesses focused primarily on profitability. With such small populations, the return on investment was not high enough to attract private owners in what was then a particularly risky endeavor. Finally, successful municipal liquor stores also provided an additional source of revenue for local governments. With many local governments facing challenging financial circumstances, much attention and scrutiny has been given to this third purpose, with many cities either getting out of the alcohol business due to a lack of profitability, or expanding and improving their operations to increase revenue.

¹⁰ “The Control Systems,” *The National Alcohol Beverage Control Association*, accessed April 11, 2015, <http://www.nabca.org/States/States.aspx>

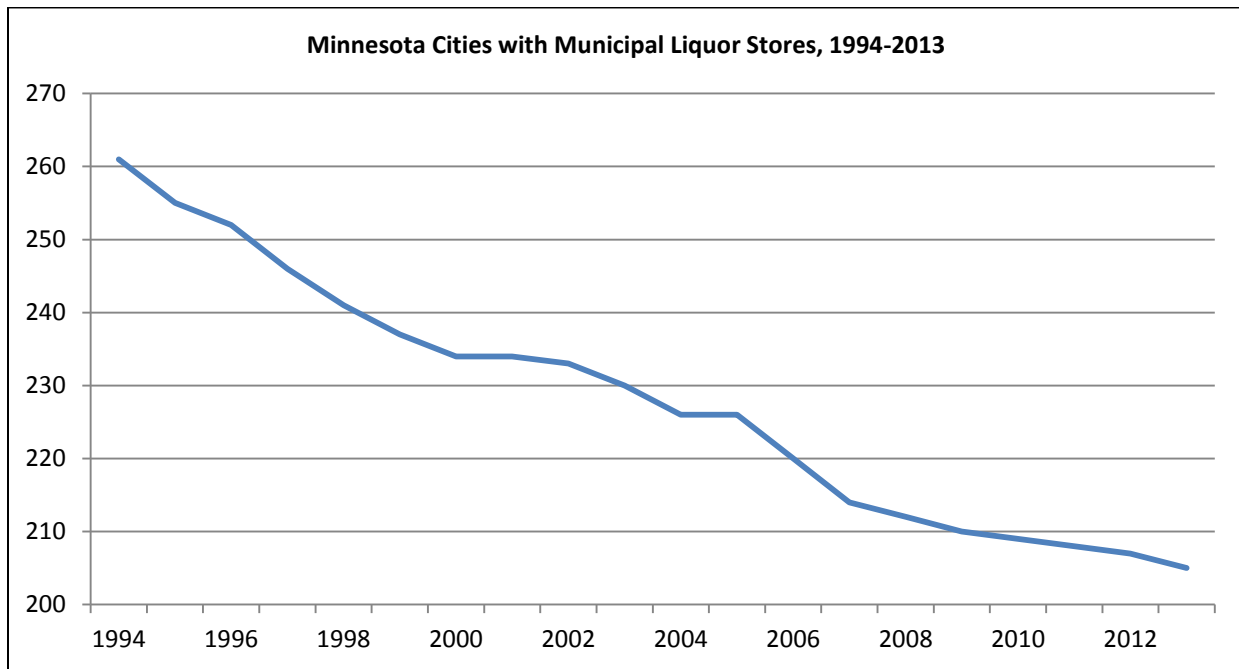
¹¹ “2014 Minnesota State Statutes,” Office of the Revisor of Statutes, accessed April 11, 2015, <https://www.revisor.mn.gov/statutes/?id=340A.601>

Statewide Performance of Municipal Liquor Stores

In 2013, approximately 205 Minnesota cities operated 237 municipal liquor stores, with cities operating either off-sale or both on-sale and off-sale establishments. The number of statewide municipal liquor stores has steadily declined over the years, with the earliest available data from the State Auditor suggesting that there were 315 municipal liquor stores in 1988. However, annual sales have continued to grow for the past 18 consecutive years. Total sales in 2013 were \$332.8 million, which resulted in a combined net profit of \$26.8 million for local governments. Data from the Minnesota Department of Revenue estimates that municipal liquor stores provided about 10.7 percent of statewide alcohol sales in 2013.¹² Only 19 of the 205 cities that currently operate municipal liquor stores are located in the 7-county metro area, although their average sales are much larger than their counterparts in Greater Minnesota. Nearly all of the metro area municipal liquor operations are off-sale only. While the sales profit margin can be greater for off-sale than for on-sale, on-sale operating expenses are generally higher due to the costs of entertainment, servers, and bartenders. Most cities' municipal liquor stores saw net profits in 2013, but 33 cities experienced net losses - all of them located in Greater Minnesota. Total net transfers from liquor store operations to other city funds were \$18.6 million in 2013, a decrease of 19.2 percent from the net transfers made in the previous year.

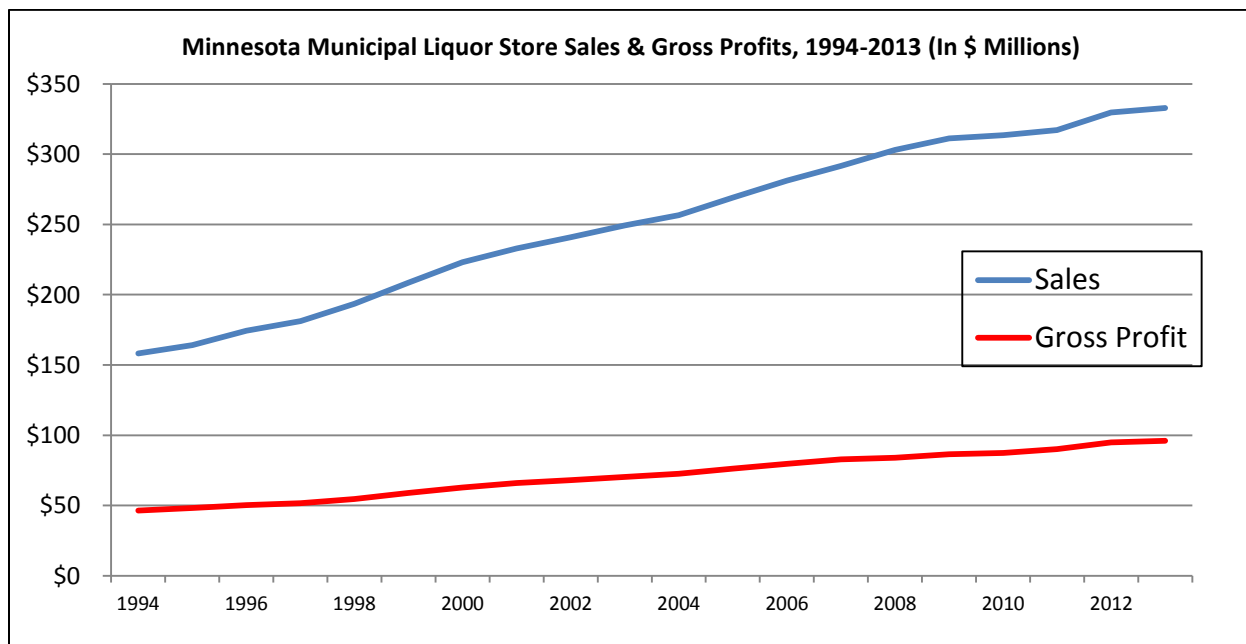
¹² "Minnesota Liquor Sales and 2.5% Tax by County 2013," *Minnesota Department of Revenue*, accessed April 10, 2015, http://www.revenue.state.mn.us/research_stats/Pages/Sales-and-Use-Tax-2013-Statistics.aspx

Figure 2. Minnesota Cities with Municipal Liquor Stores, 1994-2013



Source: Minnesota State Auditor

Figure 3. Minnesota Municipal Liquor Store Sales and Gross Profits



Source: Minnesota State Auditor

Industry & State Trends

Data from the U.S. Bureau of Labor Statistics Consumer Expenditures Report estimates that the average consumer spent \$438.50 annually on alcoholic beverages from 2009 to 2012. Annual expenditures on alcohol rise according to income quintile, with the lowest income quintile spending \$152 per year on alcoholic beverages as compared to \$922 per year for the highest income quintile in 2012. It should be noted however that the lowest income quintile spent about 1.5 percent of their income before taxes on alcohol, as compared to 0.55 percent of income before taxes for the wealthiest quintile.

Annual alcohol sales in the United States have steadily increased since prohibition, although recent trends suggest that Americans are drinking less but purchasing more expensive beverages, specifically in the form of wine and spirits. From 2007 to 2012, beer consumption declined 4.3 percent, while consumption of wine and spirits increased by 9 and 13.3 percent, respectively.¹³ Beer still dominates the beverage alcohol market however, representing 87 percent of all sales volume and 49 percent of all revenue. In the state of Minnesota, per capita beer consumption declined from 22.5 gallons in 2000 to 19.9 gallons in 2011. During the same time, wine consumption per capita increased from 1.6 to 2.1 gallons, and spirit consumption increased from 1.73 to 2.14 gallons. Although they only represent a small percentage of total sales volume of beer, craft beers have grown rapidly in popularity in Minnesota, with the number of licensed brewers increasing from 26 to 57 just between 2004 and 2012. This change in the market has largely been driven by the consumption habits of Millennials (age 21-36 years) and Generation X (37-48 years).

¹³ Mike Ginley, "U.S. Beverage Alcohol Trends," *The Beverage Information Group*, accessed April 11, 2015, <http://www.usdrinksconference.com/assets/files/agenda/U.S.%20Beverage%20Alcohol%20Trends.pdf>

The demographics and geography of alcohol consumption are also important to consider. According to the Center for Disease Control, 60 percent of men are current regular drinkers (defined as having 12 drinks in the past year) as compared to 44 percent of women. These rates decline with age, as 57 percent of people age 18-44 are current regular drinkers, as compared to 52 percent for age 45-64 and 41.6 percent for age 65-74. Finally, there are certain counties in the state of Minnesota that sell more or less alcohol per capita than others. When dividing annual county-wide alcohol sales¹⁴ by each county's estimated alcohol consuming population (total population multiplied by the percent of population age 18 and older), statewide average sales per person are calculated to be \$773.95. However, this figure for individual counties ranges from \$219.02 for Grant County to as high as \$1,698.50 for Lake of the Woods County. While these calculations might suggest some differences in drinking habits, they primarily indicate that people don't just purchase their alcohol in the county in which they live, but where they travel to for work, entertainment, shopping, and outdoor recreation.

Case Studies

Blackduck

The City of Blackduck is located in northcentral Minnesota, about twenty-five miles northeast of Bemidji. According to the 2010 Census, the city has a population of 785 people with a median age of 37.1 years.¹⁵ The same data suggests that 20.9 percent of the city's population is the age of 65 or older, while 24.1 percent of the population is below the age of 16. The 2013 American Community Survey estimates that only 10.6 percent of the population has a bachelor's degree or higher, the median annual household income is \$23,542, and 16.7 percent of the

¹⁴ "Minnesota Liquor Sales and 2.5% Tax by County 2013," *Minnesota Department of Revenue*, accessed April 10, 2015, http://www.revenue.state.mn.us/research_stats/Pages/Sales-and-Use-Tax-2013-Statistics.aspx

¹⁵ U.S. Census Bureau, American FactFinder, 2010 Census Results

civilian labor force is unemployed.¹⁶ Despite its small size, the municipal liquor store in Blackduck has performed reasonably well due largely in part to a lack of nearby competitors and a large influx of tourists during the summer months.

The City of Blackduck oversees both on-sale and off-sale operations in the same facility. Financially, the business has experienced some ups and downs, but has been profitable for each of the past ten years. Annual sales for 2012 and 2013 have been around \$850,000, a total increase of about 13 percent since 2003. During the past decade, net profits have varied from \$8,018 in 2007 to over \$85,000 in both 2004 and 2012. In an interview¹⁷, liquor store manager Shawnda Kisner shared that the city's off-sale revenues are greater than its on-sale revenues, but on-sale revenue has a much higher profit margin. Off-sale liquor sales have increased in recent years, and so has the sale of food. A variety of pizza, appetizers, sandwiches, and burgers are served at "The Pond (on-sale facility)," including the locally famous "Pond Burger."

With its nearest competitor located fifteen miles away, Blackduck's municipal liquor store appears as though it may have both geographic and competitive advantages. However, it must also deal with the fact that its sales are driven largely by visitors from out of town who come to the area for snowmobiling, fishing, hunting, and camping. The 125,000-acre Blackduck State Forest, 660,000-acre Chippewa National Forest, and many area lakes are key attractions for outdoor enthusiasts. As a result, sales can be significantly influenced by the overall state of the economy, fuel prices, and even the weather. A struggling economy and high fuel prices will deter people from traveling so far north to spend their disposable income. Heavy rainfall and high temperatures might discourage people from spending as much time outdoors. A lack of snow

¹⁶ U.S. Census Bureau, 2013 American Community Survey

¹⁷ Shawnda Kisner, interview by Noah J. Wiedenfeld, March 20, 2015.

will also decrease the number of snowmobilers and cross country skiers who come to Blackduck. Additionally, Kisner noted that she feels a municipal liquor store is much more limited in the events and promotions it might otherwise offer, as it is held to a different standard than a privately owned business. From a management perspective, it can also be difficult to make decisions when one has multiple bosses to report to with varying opinions, including not just the members of the city council but even members of the general public who feel a sense of ownership in the way the business is managed.

Table 1. Blackduck Municipal Liquor Store Sales

Year	Population	Sales	Gross Profit	Percent of Sales	Net Income	Percent of Sales	Net Transfer
2003	734	\$753,886.00	\$287,690.00	38.20%	\$48,686.00	6.50%	\$105,000.00
2004	736	\$777,880.00	\$313,017.00	40.20%	\$85,716.00	11.00%	\$95,000.00
2005	733	\$673,946.00	\$244,683.00	36.30%	\$12,939.00	1.90%	\$60,700.00
2006	720	\$687,093.00	\$268,627.00	39.10%	\$25,723.00	3.70%	\$50,000.00
2007	718	\$685,303.00	\$244,057.00	35.60%	\$8,018.00	1.20%	\$42,988.00
2008	721	\$806,047.00	\$302,964.00	37.60%	\$40,542.00	5.00%	\$0.00
2009	718	\$860,213.00	\$317,805.00	36.90%	\$36,360.00	4.20%	\$20,000.00
2010	785	\$796,600.00	\$256,419.00	32.20%	\$40,577.00	5.10%	\$40,000.00
2011	797	\$818,204.00	\$299,003.00	36.50%	\$49,410.00	6.00%	\$25,000.00
2012	797	\$854,304.00	\$316,725.00	37.10%	\$85,309.00	10.00%	\$52,500.00
2013	800	\$850,312.00	\$318,819.00	37.50%	\$73,529.00	8.60%	\$20,000.00

Source: Minnesota State Auditor

While the municipal liquor store's net profits might seem small in the big picture when comparing them to larger cities like Lakeville and Richfield, they are very significant when it comes to the city's annual budget. With a net tax levy in 2013 of \$206,000, an average annual transfer of \$31,500 over the past five years from the municipal liquor store is no small matter. Using a 2013 median home value of \$83,600 from the American Community Survey¹⁸ and tax

¹⁸ U.S. Census Bureau, 2013 American Community Survey

information from the Minnesota State Auditor,¹⁹ it was determined that the median homeowner in Blackduck paid \$404.42 in city property taxes (separate from county and school district levies). Without the \$20,000 transfer from the municipal liquor store, the net tax levy would increase and the median homeowner would pay an additional \$39.27 in property taxes to the city.

Table 2. Blackduck Municipal Liquor Store's Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$83,600.00	\$29,716.00	\$53,884.00	0.01	\$538.84	0.75	\$404.42	\$206,000.00	\$274,468.00
\$83,600.00	\$29,716.00	\$53,884.00	0.01	\$538.84	0.82	\$443.69	\$226,000.00	\$274,468.00

Source: Minnesota State Auditor

Blackduck's 2013 Comprehensive Annual Financial Report²⁰ states that the total net position for the municipal liquor store is \$418,983. Beltrami County property tax records²¹ suggest that the current taxable market value of the property is \$11,400. With a class rate of 1.5 percent and a net tax levy of \$226,000, this property in its current state would only pay \$140.80 in property taxes to the City of Blackduck if it were privately owned. Marginal revenue could also be generated through licensing fees and interest from investment.

Howard Lake

The City of Howard Lake is located approximately forty-five miles west of Minneapolis. According to the 2010 Census, the city has a population of 1,962 people with a median age of 36.5 years.²² The same data suggests that 14.7 percent of the population is age 65 or older, while

¹⁹ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

²⁰ "Proprietary Funds Balance Sheet," *City of Blackduck 2013 Comprehensive Annual Financial Report* (17)

²¹ "Beltrami County Tax Portal," accessed April 3, 2015, <http://beltramitax.co.beltrami.mn.us/searchDetails.aspx?parcelId=810037300&redirectPage=searchDetails.aspx&secondsToWait=45>

²² U.S. Census Bureau, American FactFinder, 2010 Census Results

24.2 percent of the population is below the age of 16. The 2013 American Community Survey estimates that 10.2 percent of the population has a bachelor's degree or higher, the median household income is \$35,104, and 14.9 percent of the civilian labor force is unemployed.²³ Unfortunately, Howard Lake is an example of a municipal liquor store that has faced many challenges, having seen some of the largest net losses in the state since 2006.

Until 2015, Howard Lake oversaw both on-sale and off-sale municipal liquor operations. Business did well in the 1990s into the early 2000s, with annual revenue surpassing \$1 million in 2003 and annual net profits consistently exceeding \$80,000. However, the municipal liquor store lost a total of over \$300,000 between 2006 and 2013, with annual revenue dropping to a low of \$703,187 in 2010. The store's poor financial performance was repeatedly blamed on numerous factors, including increased private competition in nearby cities, the economic recession, increased labor costs due to an increase in the minimum wage, Minnesota's 2007 statewide smoking ban, and increased insurance premiums.

Another important factor influencing performance was discovered in 2011, after police investigations determined that now-former store manager, Aaron DeMarais, was stealing from the cash register. When city administration was reviewing financial records to determine how to turn around the store, it was noticed that a large number of subtotal voids were recorded when DeMarais was working. Subtotal voids occur when an item is rung up on the cash register but voided on the final receipt. Surveillance footage determined that DeMarais was making fake sales, pocketing the money, and adjusting the store's inventory levels to match. Auditors discovered that DeMarais was responsible for approximately \$95,600 in theft.²⁴ DeMarais

²³ U.S. Census Bureau, 2013 American Community Survey

²⁴ Jennifer Kotila, "Theft From HL Liquor Store Calculated to be \$95,600," *Herald Journal*, accessed on March 28, 2015, <http://www.herald-journal.com/archives/2012/stories/HL-liquor-theft-audit.html>.

resigned from his position in May of 2011 and was later sentenced to serve twenty days in jail, pay restitution costs, and spend five years on probation.

New liquor store manager Myra Laway helped improve business following the scandal, but the store continued to lose money. Seemingly exciting changes were implemented to no avail, including the creation of a wine club, the hosting of live entertainment and special events, an expansion of food offerings and operating hours, and minor cosmetic upgrades.²⁵ David Drown Associates was hired in 2014 to analyze the store, and recommended that Howard Lake discontinue its on-sale liquor operations, as they did not project to be profitable anytime soon. At a public hearing in October of 2014, more than 40 community members addressed the city council, with the majority of them in support of keeping the on-sale business.²⁶ Many supporters argued that the bar had historical significance in the community and that patrons felt like they were part of a larger family when they frequented the business. Public opinion at the meeting seemed to suggest that more efforts should be made to try to save the bar and that more time should be provided for Laway to turn it around. Ultimately, the city council voted 4-1 in favor of closing the on-sale operation effective January 1, 2015.²⁷ A special meeting was held on Dec. 26 after rumors spread that upset patrons were planning to commit acts of theft, vandalism, and disorderly conduct on the bar's last day of operation. Due to safety concerns for city employees, the bar was closed effective immediately.²⁸ Due primarily to the heated political climate around the issue of the on-sale municipal store operations, both Myra Laway and Howard Lake City Administrator Jennifer Nash declined to be interviewed.

²⁵ Jennifer Kotila, "Public Hearing Tuesday for HL Liquor Store," *Herald Journal*, accessed on March 28, 2015, <http://www.herald-journal.com/archives/2012/stories/HL-liquor.html>

²⁶ Tara Mathews, "HL Liquor Hearing Draws a Crowd," *Herald Journal*, accessed on March 28, 2015, <http://www.herald-journal.com/archives/2014/stories/hl-liquor-store-hearing.html>

²⁷ "Howard Lake City Council Minutes 10/21/2014," accessed on March 28, 2015, <http://www.howard-lake.mn.us/>

²⁸ "Howard Lake City Council Minutes 12/26/2014," accessed on March 28, 2015, <http://www.howard-lake.mn.us/>

Table 3. Howard Lake Municipal Liquor Store Sales

Year	Population	Sales	Gross Profit	Percent of Sales	Net Income	Percent of Sales	Net Transfer
1998	1,749	\$750,850.00	\$250,041.00	33.30%	\$84,474.00	11.25%	\$85,000.00
1999	1,770	\$876,513.00	\$296,376.00	33.80%	\$108,824.00	12.42%	\$100,000.00
2000	1,853	\$915,041.00	\$294,596.00	32.20%	\$90,585.00	9.90%	\$100,000.00
2001	1,867	\$908,700.00	\$301,063.00	33.10%	\$80,767.00	8.89%	\$80,000.00
2002	1,876	\$956,894.00	\$319,952.00	33.40%	\$111,521.00	11.70%	\$40,000.00
2003	1,876	\$1,022,316.00	\$329,738.00	32.30%	\$83,502.00	8.20%	\$40,000.00
2004	1,915	\$944,414.00	\$317,519.00	33.60%	\$83,442.00	8.80%	\$80,000.00
2005	1,966	\$847,898.00	\$267,420.00	31.50%	\$22,328.00	2.60%	\$55,000.00
2006	1,995	\$928,957.00	\$286,637.00	30.90%	-\$17,727.00	-1.90%	\$0.00
2007	1,994	\$820,353.00	\$250,714.00	30.60%	-\$65,409.00	-8.00%	\$0.00
2008	2,016	\$735,892.00	\$203,020.00	27.60%	-\$78,135.00	-10.60%	\$0.00
2009	2,021	\$754,850.00	\$181,423.00	24.00%	-\$91,055.00	-12.10%	\$0.00
2010	1,962	\$703,187.00	\$145,887.00	20.70%	-\$97,585.00	-13.90%	\$0.00
2011	1,978	\$743,489.00	\$205,412.00	27.60%	\$80,019.00	10.80%	\$0.00
2012	1,996	\$828,173.00	\$209,324.00	25.30%	-\$18,961.00	-2.30%	\$0.00
2013	2,002	\$831,030.00	\$216,894.00	26.10%	-\$26,195.00	-3.20%	\$0.00

Source: Minnesota State Auditor

Howard Lake's 2013 Comprehensive Annual Financial Report²⁹ states that due to large liabilities, the net position of the municipal liquor store is – \$110,512. Using a median home value of \$124,700 from the American Community Survey³⁰ and tax information from the Minnesota State Auditor,³¹ it was determined that the median homeowner in Howard Lake paid \$611.94 in city property taxes (separate from county and school district levies). Although no net transfer by the municipal liquor store to or from the general fund was reported, a hypothetical transfer of \$26,195 from the general fund to the municipal liquor store (based on the 2013

²⁹ "Statement of Net Position, Proprietary Funds," *City of Howard Lake 2013 Comprehensive Annual Financial Report*, (22)

³⁰ U.S. Census Bureau, 2013 American Community Survey

³¹ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

negative net income) could be assumed for the purpose of this calculation. If this hypothetical transfer was not made, the median homeowner would save \$22.60 on their city property taxes.

Table 4. Howard Lake Municipal Liquor Store’s Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$124,700	\$26,017	\$98,683	0.01	\$986.83	0.62	\$611.94	\$709,565	\$1,144,254
\$124,700	\$26,017	\$98,683	0.01	\$986.83	0.64	\$634.54	\$735,760	\$1,144,254

Source: MN State Auditor

According to Wright County property records³², the taxable market value of the property is \$448,400. However, the property is also home to city administrative offices, a library, and a fire hall, thus the municipal liquor store space would likely need to be leased or used for an alternative business-type activity in order to generate revenue.

Lakeville

The City of Lakeville is a growing suburb located twenty-three miles south of downtown Minneapolis. According to the 2010 Census, the city has a population of 55,854 with a median age of 34.8 years.³³ This data suggests that the city’s population has increased nearly thirty percent in the past decade. Only 5.8 percent of the population is age 65 or older, and 28.1 percent of the population is below the age of 16. The 2013 American Community Survey estimates that 44.3 percent of the population has a bachelor’s degree or higher, the median household income is \$93,252, and 5.3 percent of the civilian labor force is unemployed.³⁴ According to the most recent annual data provided by the Minnesota State Auditor, Lakeville’s municipal liquor stores

³² “Property Tax Search/Payments,” *Wright County*, accessed on April 10, 2015, <http://beacon.schneidercorp.com/Application.aspx?AppID=187&LayerID=2505&PageTypeID=4&PageID=1310&KeyValue=109500031308>

³³ U.S. Census Bureau, American FactFinder, 2010 Census Results

³⁴ U.S. Census Bureau, 2013 American Community Survey

had the greatest net profits in 2013 of all 205 cities in the state with liquor stores, and its net income before transfers was 9.6 percent, higher than the statewide average of 8 percent.

On its website³⁵, the City of Lakeville stresses that its liquor stores exist “to control the sale and consumption of alcoholic beverages...No matter how profitable, our municipal operations are justified only if we encourage moderation and consistently observe and enforce all regulations.” Three off-sale locations are currently operating, and data suggests a history of strong financial performance. Net profits have been in excess of \$1 million annually since 2005, and total sales have steadily climbed from about \$9.8 million in 2003 to over \$15.3 million in 2013. Net profits used to be transferred almost solely towards city infrastructure projects, but have more recently been used to pay for other community needs that previously might have been paid with through local government aid, including remodeling of the city hall and fire and police stations, the purchase of land for a new library, and the construction of an ice arena.

In an interview³⁶, long-time liquor operations director Brenda Visnovac stressed that while the City of Lakeville has a geographic monopoly in regards to alcohol sales, it does not have a competitive monopoly. Lakeville competes with stores in Burnsville and Edina, as well as any liquor store that residents pass on their commute to and from the Twin Cities. Visnovac noted that people are drinking less alcohol than in the past, and that all store managers must keep up with the latest trends in changing taste preferences, especially with high quality craft beer, wine, and spirits. Meanwhile, it can be difficult to make long-term planning decisions because of changes in priorities that can result from city council elections. Facility improvements and programs such as beer and wine tasting events might not always have support depending on the

³⁵ “Lakeville Liquors,” accessed March 28, 2015, http://www.ci.lakeville.mn.us/index.php?option=com_content&view=category&id=46&Itemid=415

³⁶ Brenda Visnovac, interview by Noah J. Wiedenfeld, March 25, 2015.

city leadership at the time. Lakeville previously managed both on-sale and off-sale operations, but ended its on-sale operations in 1987. The city council also hired a consulting firm in 2011 to explore whether it would be in the better financial interests of the city to sell the municipal liquor stores, suggesting there were mixed views held by the city's elected leadership at the time.

Despite some debate and differences of opinion, it appears as though Lakeville's government control of alcohol sales will likely to continue in the future. In fact, elected officials approved of purchasing land in 2014 for a fourth liquor store.³⁷ It is anticipated that a new 12,000-square-foot store will likely be constructed within the next five years to keep up with projected growth of both alcohol sales and population, which would be larger than any of the three current facilities.

Table 5. Lakeville Municipal Liquor Store Sales

Year	Population	Sales	Gross Profit	Percent of Sales	Net Income	Percent of Sales	Net Transfer
2003	47,523	\$9,852,366.00	\$2,385,032.00	24.20%	\$788,688.00	8.00%	\$1,046,141.00
2004	49,097	\$10,521,853.00	\$2,590,308.00	24.60%	\$967,706.00	9.20%	\$988,544.00
2005	51,722	\$11,481,091.00	\$2,911,820.00	25.40%	\$1,149,155.00	10.00%	\$683,041.00
2006	52,323	\$12,111,183.00	\$3,080,692.00	25.40%	\$1,214,444.00	10.00%	\$368,096.00
2007	53,829	\$13,022,120.00	\$3,314,721.00	25.50%	\$2,097,171.00	16.10%	\$433,276.00
2008	54,328	\$14,443,355.00	\$3,603,240.00	24.90%	\$1,371,108.00	9.50%	\$517,796.00
2009	55,772	\$14,604,481.00	\$3,797,780.00	26.00%	\$1,447,679.00	9.90%	\$628,754.00
2010	55,954	\$14,763,552.00	\$3,612,321.00	24.50%	\$1,255,927.00	8.50%	\$433,911.00
2011	56,534	\$14,373,261.00	\$3,546,877.00	24.70%	\$1,225,708.00	8.50%	\$1,134,131.00
2012	57,048	\$15,220,064.00	\$3,839,723.00	25.20%	\$1,476,434.00	9.70%	\$2,554,609.00
2013	57,789	\$15,381,124.00	\$3,948,599.00	25.70%	\$1,469,168.00	9.60%	\$1,749,982.00

Source: Minnesota State Auditor

According to the City of Lakeville's 2013 Comprehensive Annual Financial Report, the total net position of the municipal liquor stores is \$5,532,658. Using a median home value of \$243,500

³⁷ Erin Adler, "Lakeville to Add 4th Municipal Liquor Store," *Star Tribune*, accessed March 24, 2015, <http://www.startribune.com/local/south/259662921.html>.

from the American Community Survey³⁸ and tax information from the Minnesota State Auditor,³⁹ it was determined that the median homeowner paid \$831.80 in city property taxes. Without the net transfer of \$1,749,982 from the municipal liquor fund to the general fund, the net tax levy would increase and the median homeowner would have seen an increase of \$72.79 in 2013 city property taxes.

Table 6. Lakeville Municipal Liquor Stores' Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$243,500	\$15,325	\$228,175	0.01	\$2,281.75	0.36	\$831.80	\$19,996,458	\$54,853,225
\$243,500	\$15,325	\$228,175	0.01	\$2,281.75	0.40	\$904.59	\$21,746,440	\$54,853,225

Source: Minnesota State Auditor

The City of Lakeville is the sole owner of two properties where liquor stores are located, with their third store is located in a leased space in a mini-mall. According to Dakota County tax records,⁴⁰ the two owned properties have property values of \$1,499,199 and \$1,658,800, for a total taxable market value of \$3,147,199. Given a net tax levy of \$21,746,440 and class rates of 1.5 percent for the first \$150,000 and 2 percent for the remaining \$2,997,199, these properties in their current state would pay \$24,444.96 in property taxes to the City of Lakeville if they were privately owned. A fairly large amount of revenue could also be earned through interest, as well as a large anticipated number of licenses given the population of the city.

³⁸ U.S. Census Bureau, 2013 American Community Survey

³⁹ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

⁴⁰ "Property Information Search," *Dakota County*, accessed April 2, 2015, <http://gis2.co.dakota.mn.us/maps/property.htm>

Richfield

The City of Richfield is an inner-suburb to the south of Minneapolis. According to the 2010 Census, the city has a population of 35,228 people with a median age of 36.2 years.⁴¹ The same data suggests that 14.2 percent of the population is the age 65 or older, while 19.3 percent of the population is below the age of 16. The 2013 American Community Survey estimates that 33.5 percent of the population has a bachelor's degree or higher, the median household income is \$52,829, and 10.2 percent of the civilian workforce is unemployed.⁴² Richfield has more municipal liquor stores (four) than any city in Minnesota, and consistently ranks near the top of the state in terms of annual net profits. Its net income before transfers as a percentage of sales has been near the 2013 state average of 8 percent for the past six years.

The City of Richfield has operated municipal liquor stores since 1943, with annual sales slowly but steadily growing since that time. Total sales have increased from \$9 million to \$11.1 million over the past decade, with annual net profits averaging around \$900,000 for the last five years. In an interview,⁴³ longtime liquor operations director Bill Fillmore noted that liquor sales are a win-win for the City of Richfield, as it can both earn additional revenue and provide oversight of alcohol sales. The mission statement⁴⁴ for the liquor operations department acknowledges these two benefits, and also specifies that any profits generated will go to recreational projects. Fillmore mentioned that he believes his customers are conscious about where they shop for alcohol, and that they understand that their purchases at the municipal liquor

⁴¹ U.S. Census Bureau, American FactFinder, 2010 Census Results

⁴² U.S. Census Bureau, 2013 American Community Survey

⁴³ Bill Fillmore, interview by Noah J. Wiedenfeld, March 18, 2015.

⁴⁴ "Liquor Stores," *City of Richfield*, accessed on March 18, 2015, <http://www.ci.richfield.mn.us/index.aspx?page=72>.

store benefit the local community. When the annual budget for parks and recreation is about \$2.1 million, a transfer of \$700,000 from municipal liquor sales is extremely important.

Table 7. Richfield Municipal Liquor Store Sales

Year	Population	Sales	Gross Profit	Percent of Sales	Net Income	Percent of Sales	Net Transfer
2003	34,502	\$9,001,739.00	\$2,117,744.00	23.50%	\$496,592.00	5.50%	\$704,270.00
2004	34,496	\$9,264,724.00	\$2,196,964.00	23.70%	\$537,319.00	5.80%	\$710,370.00
2005	33,667	\$10,016,562.00	\$2,353,243.00	23.50%	\$619,639.00	6.20%	\$716,660.00
2006	33,099	\$10,271,839.00	\$2,437,725.00	23.70%	\$635,803.00	6.20%	\$673,180.00
2007	33,107	\$10,775,418.00	\$2,559,406.00	23.80%	\$640,134.00	5.90%	\$673,180.00
2008	33,676	\$11,302,384.00	\$2,801,424.00	24.80%	\$939,285.00	8.30%	\$679,870.00
2009	33,859	\$11,349,563.00	\$2,817,278.00	24.80%	\$991,555.00	8.70%	\$679,870.00
2010	35,228	\$11,117,676.00	\$2,807,522.00	25.30%	\$926,954.00	8.30%	\$686,770.00
2011	35,376	\$11,198,404.00	\$2,839,467.00	25.40%	\$925,637.00	8.30%	\$693,870.00
2012	35,979	\$11,807,489.00	\$3,005,047.00	25.50%	\$1,083,648.00	9.20%	\$701,170.00
2013	36,041	\$11,137,402.00	\$2,846,894.00	25.60%	\$878,802.00	7.90%	\$708,700.00

Source: Minnesota State Auditor

According to Fillmore, the main competitors for Richfield’s municipal liquor stores are in nearby Bloomington and Edina. Consumers are purchasing less alcohol than in the past, but what they are purchasing is of a higher quality and thus more expensive. With the business performing well financially for many years, there has long been support from the city council and city staff. With years of experience in managing both private and municipal liquor stores, Fillmore feels that the city’s support is a huge advantage in regards to investing in facilities, as there is less motivation to cut corners just to increase profits. Employees that are on the local government payroll are also perceived to be of a higher quality and to do a better job checking IDs to ensure that consumers are of legal age. In a 2011 interview⁴⁵ with the Richfield Patch online newspaper, Richfield City Manager Steve Devich was asked about the possibility of the city stepping away

⁴⁵ Caitlin Burgess, “Municipal Liquor System: A Legal Monopoly,” *Richfield Patch*, accessed on April 1, 2015, <http://patch.com/minnesota/richfield/municipal-liquor-stores>.

from the municipal liquor business, to which he replied, “... that would be the most foolish and financially detrimental decision that this city could make.”

According to the City of Richfield’s 2013 Comprehensive Annual Financial Report,⁴⁶ the total net position of the municipal liquor stores is \$3,472,017. Using a median home value of \$190,600 from the American Community Survey⁴⁷ and tax information from the Minnesota State Auditor,⁴⁸ it was determined that the median homeowner paid \$860.70 in city property taxes in 2013. Without the net transfer of \$708,700 from the municipal liquor fund to the general fund, the net tax levy would increase and the median homeowner would have seen an increase of \$41.93 in 2013 city property taxes.

Table 8. Richfield Municipal Liquor Stores’ Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$190,600	\$20,086	\$170,514	0.01	\$1,705.14	0.50	\$860.70	\$14,546,625	\$28,818,371
\$190,600	\$20,086	\$170,514	0.01	\$1,705.14	0.53	\$902.63	\$15,255,325	\$28,818,371

Source: Minnesota State Auditor

Hennepin County does not provide the taxable market value of the four city-owned properties since they are tax exempt. However, one might hypothesize that the properties had a combined taxable market value close to \$2 million given the valuations of land, buildings, and accumulated depreciation listed in the statement of net position. Given a net tax levy of \$15,255,325 and class rates of 1.5 percent for the first \$150,000 and 2 percent for the remaining \$2,997,199, these four properties in their current state would pay \$19,586.36 in property taxes to

⁴⁶ “Richfield 2013 Comprehensive Annual Financial Report,” accessed May 1, 2015, <http://www.ci.richfield.mn.us/modules/showdocument.aspx?documentid=5001>.

⁴⁷ U.S. Census Bureau, 2013 American Community Survey

⁴⁸ “City Financial Data Search and Comparison,” *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

the City of Richfield if they were privately owned. A fairly large amount of revenue could also be earned through interest, as well as from a large anticipated number of licenses given the population of the city.

Rushford

The City of Rushford is located near the southeast corner of the state of Minnesota. According to the 2010 Census, the city has a population of 1,731 people with a median age of 41.9 years.⁴⁹ The same data suggests that 21 percent of the population is at the age of 65 years or older, while 21.7 percent of the population is below the age of 16. The 2013 American Community Survey estimates that only 18.1 percent of the population has a bachelor's degree or higher, the median annual household income is \$47,500, and 7.5 percent of the civilian workforce is unemployed.⁵⁰ After much political debate, a destructive flood, and five consecutive years in which the municipal liquor store saw a net loss, the City of Rushford discontinued its municipal liquor store operations in 2011.

Rushford provided both on-sale and off-sale operations for many years and saw modest success from a financial standpoint until the early 2000s. Sales reached a high of \$576,959 in 2005, although net profits saw substantial decreases since reaching their high in 2001, suggesting that the business was underperforming. Calendar year 2007 saw the closure of the TRW Automotive plant located in the city, resulting in the loss of 175 jobs - a devastating blow to a small community. Southeastern Minnesota experienced historic flooding in August of 2007, including the largest 24-hour rainfall ever recorded in the state's history.⁵¹ The city's municipal

⁴⁹ U.S. Census Bureau, American FactFinder, 2010 Census Results

⁵⁰ U.S. Census Bureau, 2013 American Community Survey

⁵¹ "Heavy Rain Falls on Southeastern Minnesota," *Minnesota DNR*, accessed on March 15, 2015, <http://www.dnr.state.mn.us/climate/journal/ff070820.html>

liquor store was damaged by the flood, and a temporary location was established until a brand new building was constructed with funding from FEMA and DEED the following year.

Despite the new facility, the municipal liquor store had annual net losses in excess of \$70,000 from 2008 to 2010. In an interview,⁵² current City Administrator Sarvi suggested that consumers changed their buying habits while the new facility was being constructed, purchasing their alcohol from retailers in Winona or La Crosse where many of the city's residents shop or work. There was also some public resentment towards the new facility, as some residents viewed it as too extravagant, while others felt that there should have been other priorities immediately following a flood. Meanwhile, there were ongoing administrative concerns about managing the daily operations of the store, hiring employees, and overseeing compliance with state laws, not to mention rising insurance costs and fear of legal action in the event that an individual might be over-served and injured. On-sale liquor operations ended in late 2010 after a 4-0 vote by the city council, but council members remained hopeful that off-sale operations might turn around.⁵³ After financial losses continued, the city council voted to close the store effective June 1, 2011.

In a surprising twist, some local residents disagreed with the city council's decision and collected enough petition signatures to force a public referendum later that fall. However, voters ultimately agreed with the city council, voting 352-277 in favor of ending the municipal liquor store's operations.⁵⁴ City officials have found themselves in a difficult situation since then, as FEMA must be paid back about \$800,000 if the building that housed the now-former liquor store

⁵² Steve Sarvi, interview by Noah J. Wiedenfeld, March 19, 2015.

⁵³ Patrick Anderson, "Last Call, Rushford: Municipal Liquor Store's Bar Closing," *Winona Daily News*, accessed on March 15, 2015, http://www.winonadailynews.com/news/local/last-call-rushford-municipal-liquor-store-s-bar-closing-after/article_80f86a8a-13ce-11e0-9c13-001cc4c002e0.html

⁵⁴ Adam Voge, "Rushford Municipal Liquor Store to Stay Closed," *Winona Daily News*, accessed on March 15, 2015, http://www.winonadailynews.com/news/rushford-municipal-liquor-store-to-stay-closed-incumbent-mayor-council/article_342c39f0-0a92-11e1-accf-001cc4c03286.html

is ever sold to a private owner. Some options such as leasing the building have been explored, but as of right now its future remains uncertain. The City of Rushford continues to pay the basic operating costs necessary to maintain the property, totaling over \$27,000 in 2013. In the meantime, four private businesses have since obtained city permits for on-sale liquor operations.

Table 9. Rushford Municipal Liquor Store Sales

Year	Population	Sales	Gross Profit	Percent of Sales	Net Income	Percent of Sales	Net Transfer
1998	1,633	\$422,435.00	\$134,349.00	31.80%	\$31,529.00	7.46%	\$16,000.00
1999	1,638	\$460,944.00	\$148,270.00	32.20%	\$37,485.00	8.13%	\$20,000.00
2000	1,696	\$489,754.00	\$156,456.00	31.90%	\$43,464.00	8.87%	\$25,000.00
2001	1,728	\$509,648.00	\$164,028.00	32.20%	\$50,930.00	9.99%	\$25,000.00
2002	1,742	\$525,831.00	\$169,189.00	32.20%	\$36,637.00	7.00%	\$60,000.00
2003	1,746	\$540,397.00	\$173,343.00	32.10%	\$27,918.00	5.20%	\$25,000.00
2004	1,781	\$548,155.00	\$178,200.00	32.50%	\$29,072.00	5.30%	\$30,000.00
2005	1,785	\$576,959.00	\$192,734.00	33.40%	\$28,404.00	4.90%	\$30,000.00
2006	1,781	\$556,289.00	\$183,129.00	32.90%	\$12,443.00	2.20%	\$30,000.00
2007	1,777	\$358,071.00	\$130,387.00	36.40%	-\$22,691.00	-6.30%	\$30,000.00
2008	1,776	\$265,007.00	\$59,877.00	22.60%	-\$81,047.00	-30.60%	-\$2,306.00
2009	1,786	\$449,230.00	\$131,369.00	29.20%	-\$72,692.00	-16.20%	\$0.00
2010	1,731	\$458,793.00	\$133,319.00	29.10%	-\$75,146.00	-16.40%	\$0.00
2011	1,749	\$149,863.00	\$26,934.00	18.00%	-\$100,876.00	-67.30%	\$0.00
2012	1,757	\$0.00	\$0.00	0.00%	-\$64,733.00	0.00%	\$0.00
2013	1,757	\$0.00	\$0.00	0.00%	-\$27,291.00	0.00%	\$0.00

Source: Minnesota State Auditor

According to the City of Rushford's 2011 financial audit,⁵⁵ the total net position of the municipal liquor store was \$590,623. Using a median home value of \$135,900 from the American Community Survey⁵⁶ and tax information from the Minnesota State Auditor,⁵⁷ it was determined that the median homeowner paid \$997.27 in city property taxes in 2013. While no

⁵⁵ City of Rushford 2011 Audit

⁵⁶ U.S. Census Bureau, 2013 American Community Survey

⁵⁷ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

transfer was made that year from the municipal liquor fund to the general fund, a hypothetical transfer of \$100,876 (the net income for 2011) from the general fund to the municipal liquor fund would mean that taxpayers would have paid an additional \$135.96 to subsidize operations. Given that the property and building are valued at \$756,345 in the city's 2011 financial audit, and the fact that the city would need to return \$800,000 to FEMA if the property was sold to a private owner, it is likely that city officials will hold on to the property and search for an alternative use that doesn't lose as much money as the municipal liquor store in its final years.

Table 10. Rushford Municipal Liquor Store's Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$135,900.00	\$0.00	\$135,900.00	0.01	\$1,359.00	0.73	\$997.27	\$739,982.00	\$1,008,384.00
\$135,900.00	\$0.00	\$135,900.00	0.01	\$1,359.00	0.83	\$1,133.23	\$840,858.00	\$1,008,384.00

Source: Minnesota State Auditor

Analysis

In three of the case study cities, municipal liquor store operations save the median homeowner on their city property taxes. Blackduck residents save about \$39.27 per home, Lakeville residents save about \$72.79 per home, and Richfield residents save about \$41.93 per home. The remaining two cities - Howard Lake and Rushford - were losing a considerable amount of money each year with their municipal liquor stores prior to their decisions to end on-sale operations in the case of the former, and to end all operations in the latter. Transfers from the general fund to the municipal liquor store fund had not yet been made, but would have cost taxpayers a considerable amount based on business trends. Even though elected officials in Howard Lake and Rushford appear to have made wise financial decisions, they were surely not

easy decisions to make politically. Supporters of the municipal liquor stores in both cities were very vocal, forcing a referendum in Rushford and an early store closure in Howard Lake.

In seeking to understand why three of the cities' liquor store operations saw success and two did not, one might begin by comparing the community demographics and geographic location of each of the five cities. When adding the population percentages below the age of 16 (legally cannot purchase alcohol) and above the age of 65 (lower consumers of alcohol) and comparing the combined percentages, Howard Lake (38.9), Rushford (42.7), and Blackduck (45) appear to be at a disadvantage to Lakeville (33.9) and Richfield (33.5). Lakeville and Richfield also appear to benefit from stronger economic conditions, as evident by their higher household income and lower unemployment levels. Blackduck appears to be a unique exception, however. Despite its small population, low household income levels, and high unemployment rates, the Blackduck municipal liquor store does quite well largely in part to the large number of tourists who visit the area and the geographic monopoly it enjoys (nearest competitor is 15 miles away) that might also be considered a competitive monopoly. Lakeville and Richfield have many competitors in the metro region, but rely heavily on their experienced managers and wide assortment of products to do well. Given that the cities' populations are younger and wealthier than the other three case study populations, the liquor stores also likely serve an audience that is more likely to consume craft beer, spirits, and wine, which are responsible for most of the recent growth in the alcoholic beverage industry.

It's also very interesting to note the varying degrees of support expressed by elected officials in each city. Richfield's liquor store manager shared that the city council was very supportive and proud of the city's liquor store operations, and that the long-term financial investments provided by the city were a reflection of this sentiment. Lakeville's recent

remodeling project and upcoming plans for an additional retail location also suggest strong support from local government leaders. Even though Howard Lake recently ended its on-sale operations, it should be noted that the city council allowed the municipal liquor store to operate at a net loss for eight years before finally pulling the plug. This and the fact that the city is continuing its off-sale operations could be interpreted as signs that elected officials still see value in controlling the sale of alcohol within the city's borders, despite financial uncertainty and recent employee theft. The only exception from the five case study cities appears to be Rushford, whose city administrator clearly expressed that municipal liquor stores no longer have a place. One might speculate that if it were not for the funding received from FEMA, elected leaders may have ended municipal liquor store operations even earlier and never rebuilt following the flood.

The State of the Golf Industry in the United States

From the mid-1980s into the late 1990s, with the sport of golf growing in popularity and the economy doing well, many new golf courses and often times related housing development projects were constructed. The National Golf Foundation (NGF) reports that the number of golf courses nationwide increased by 40 percent between 1986 and 2005.⁵⁸ Many elected officials viewed municipal golf courses as a worthwhile investment that could earn a profit and serve as an asset to the local community. Public courses popped up alongside private courses as the game of golf became more appealing and affordable for the middle class. However, since 2006, the annual number of golf course closings has outnumbered the number of new golf courses opening. A record high 399 new golf courses opened nationwide in 2000, but only 19 opened in

⁵⁸ Michael Buteau, "U.S. Golf Course Closures Exceed Openings for Eighth Year," Bloomberg, accessed on April 15, 2015, <http://www.bloomberg.com/news/articles/2014-01-16/golf-course-closings-outpace-openings-for-eighth-straight-year>

2011. The number of golfers declined from a high of 30.6 million in 2003 to 25.7 million in 2012, and the number of rounds of golf played dropped 17.5 percent from 1990 to 2010.

So who is golfing? Data provided from the NGF and the U.S. Census Bureau estimate that 9.6 percent of the population golfs, although 77.5 percent of golfers are men.⁵⁹ Sixty-seven percent of golfers have at least a college education, and only 17 percent of golfers are below 40 years of age. The average golfer has a household income of \$95,000. The NGF 2012 “Pyramid of Influence”⁶⁰ divides golfers into three categories: occasional, moderate, and avid. Avid golfers are defined as playing more than 25 rounds of golf each year. Even though only 26 percent of golfers belong in this category, this subgroup plays 76 percent of all rounds of golf played and generates 71 percent of all revenue. Avid players spend about \$2,750 each on golf each year, as compared to \$789.47 and \$141.59 by moderate and occasional golfers, respectively. Thus, the loss of one avid player’s business is equivalent to losing almost 20 occasional golfers.

There are numerous factors that can explain the declining popularity of the sport of golf. Since golf is an expensive sport to play and generally has greater price elasticity than basic goods, it is very susceptible to fluctuations in disposable income that occur as a result of changes in the economy. Thus, collapses of the Internet bubble and the housing market and high unemployment during the Great Recession likely contributed to the decline of golf. It should also be noted that many courses were constructed with the assumption that residential construction would make the endeavor profitable, even though the golf course by itself was not sustainable. When golf courses cut back on the upkeep and maintenance of the course or raise prices in order to stay profitable, golfers may take their business elsewhere or simply stay home. Finally, golf

⁵⁹ “Golf Player Demographic Statistics,” Statistic Brain, accessed on April 15, 2015, <http://www.statisticbrain.com/golf-player-demographic-statistics/>

⁶⁰ “Golf’s Pyramid of Influence.” *National Golf Foundation*, accessed March 20, 2015 from <http://www.ngf.org/pages/free-reports>

has a hard time attracting young people due to the difficulty of the sport, the length of time required to play 18 holes, and the lack of exposure to the sport at a young age in comparison to baseball, basketball, and soccer. For a generation that likes fast-paced entertainment and instant gratification for its efforts, golf simply does not seem to appeal to Millennials.

Golf in Minnesota

Minnesota has historically had one of the highest golf courses per capita rankings in the country despite its relatively short playing season as compared to states with warmer climates. Even so, golf's national decline can also be seen here. According to the Minnesota Golf Association (MGA), 41 new golf courses were constructed in the state between 2000 and 2006. Since that time, only one new course has been built, while fifteen have closed. In an interview⁶¹ with WCCO-CBS, MGA executive director Tom Ryan said, "Really, 25 percent of all the golf courses in Minnesota have been built since 1990. Certainly the number of golfers hasn't gone up by that number. There's an oversupply of golf courses. We overbuilt." The MGA's membership, a possible barometer for avid golfers, has declined from a high of 94,000 members in 1999 to only 65,000 in 2014.⁶² Despite the decline, the golf industry remains an important contributor to the state's economy, contributing an estimated \$2.4 billion annually by providing thousands of jobs and bringing in tourism revenue. These jobs are declining however, as golf courses continue to cut back on staff to reduce operating costs, and retail giants like Dick's Sporting Goods eliminate their golf professionals.⁶³ The weather in recent years have been especially tough for

⁶¹ David McCoy, "Golf Courses Around the Metro Close as Participation Declines," *WCCO-TV*, accessed on April 2, 2015, <http://minnesota.cbslocal.com/2014/06/30/mn-golf-courses-closing-participation-declining/>

⁶² Jason Gonzalez and Mike Kaszuba, "Golf in Minnesota Hits Tough Time for Players, Courses," *Star Tribune*, accessed April 8, 2015, <http://www.startribune.com/sports/golf/271544211.html>

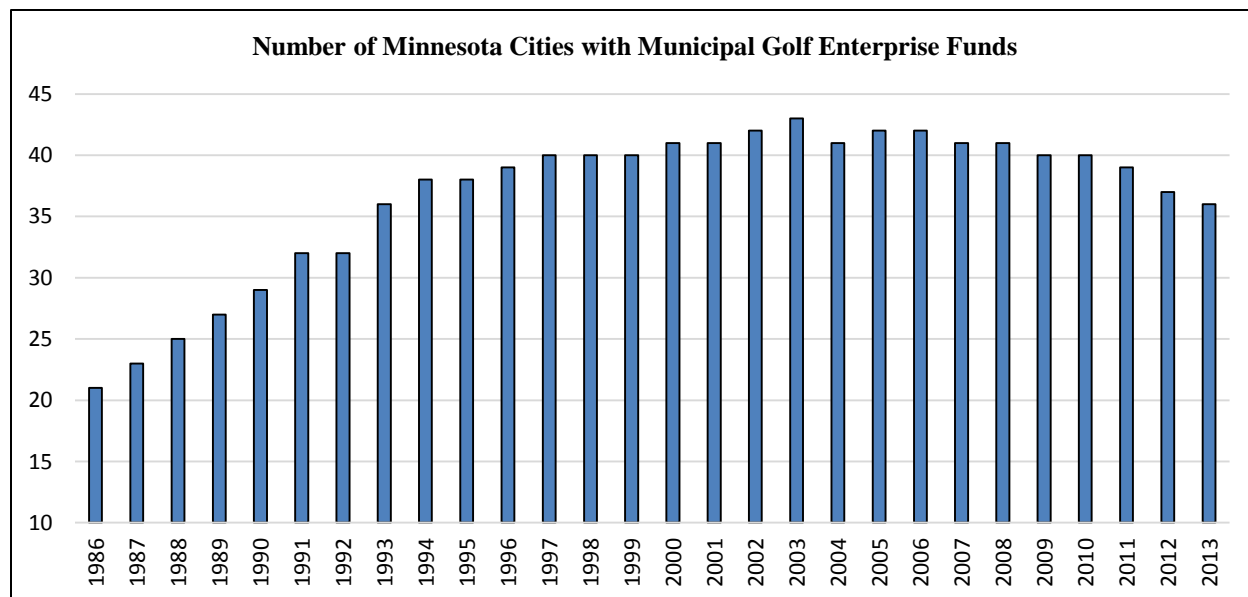
⁶³ Sara Germano, "Dick's Lays Off More than 400 PGA Golf Professionals," *Wall Street Journal*, accessed on April 21, 2015, <http://www.wsj.com/articles/dicks-sporting-goods-lays-off-more-than-400-in-golf-division-1406068726>

golf courses, as long winters, record flooding, and drought have shortened their seasons and increased maintenance costs.

Statewide Performance of Municipal Golf Courses

Data provided by the Minnesota State Auditor shows the financial performance of all municipal golf courses that are accounted for in enterprise funds since 1986. It is important to note that this data set doesn't include all municipal golf courses, since some cities include their golf courses in their parks and recreation budget. Upon first glance, the dramatic increase nationwide in new golf course construction in the 1990s is clearly reflected in the number of cities operating municipal golf courses statewide. Twenty-one cities operated municipal golf courses in 1986, and this figure steadily rose to over 40 cities in the early 2000s. Since 2008, the number of cities operating municipal golf courses has declined from 41 down to 36 in 2013.

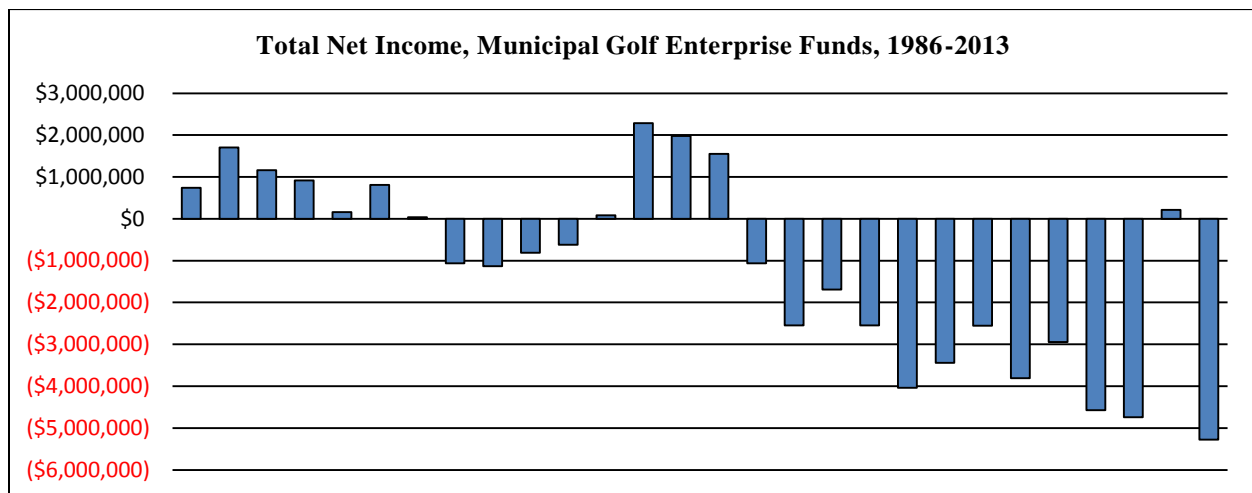
Figure 4. Number of Minnesota Cities with Municipal Golf Enterprise Funds



Source: Minnesota State Auditor

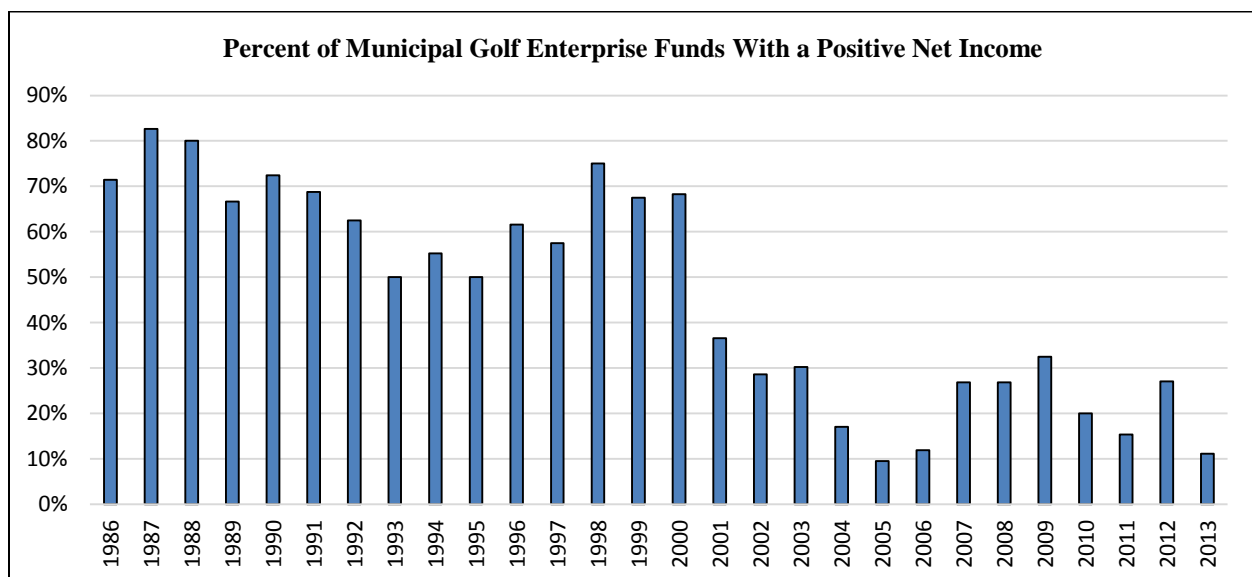
The primary reason for recent closures is observed in statewide net income trends. In 2000, municipal golf courses generated a total net income of over \$1.5 million. Just five years later, golf courses had an annual net loss of over \$4 million. In 2013, even with fewer golf courses than in previous years, the total annual net loss exceeded \$5.2 million statewide, with only 4 cities having a positive net income.

Figure 5. Total Net Income, Municipal Golf Enterprise Funds, 1986-2013



Source: Minnesota State Auditor

Figure 6. Percent of Municipal Golf Enterprise Funds with a Positive Net Income



Source: Minnesota State Auditor

Case Studies

Buffalo

The City of Buffalo is located about forty miles northwest of Minneapolis. According to the 2010 Census, Buffalo has a population of 15,453 people with a median age of 34.3 years.⁶⁴ The same data suggests that 11.8 percent of the population is age 65 or older, with 26.9 percent of the population below the age of 16. The 2013 American Community Survey estimates that 23.4 percent of the population has a bachelor's degree or higher, the median household income is \$62,486, and 7.1 percent of the civilian labor force is unemployed.⁶⁵ Unfortunately, Buffalo's municipal golf course has not performed well financially in the past decade, with total net losses exceeding \$4.9 million.

The City of Buffalo manages Wild Marsh Golf Course, a challenging 18-hole course developed by Australian professional golfer Graham Marsh in 2000. The course originally opened in 1995 as Buffalo Run, and was sold in 1999, at which time it was redesigned. The City of Buffalo purchased the course in 2005 in order to save the golf course from residential development. According to its website, the course measures 6,504 yards from the championship tees. Green fees for 18 holes and 9 holes are currently \$42 and \$24, respectively.⁶⁶ The course also includes a bar and fine dining establishment known for its brunch buffet and seafood as well as for frequently hosting banquets and large events.

Operating revenue for Wild Marsh Golf Course has dramatically declined in recent years, from a high of \$1.3 million in 2006 to only \$587,000 in 2013. Annual net losses have

⁶⁴ U.S. Census Bureau, American FactFinder, 2010 Census Results

⁶⁵ U.S. Census Bureau, 2013 American Community Survey

⁶⁶ "Experience Golf and Play Wild Marsh," Wild Marsh Golf Course, accessed on March 17, 2015, <http://www.wildmarsh.com/-golf>

consistently exceeded \$500,000, making it one of the worst financially performing municipal golf courses in the state each year. At the end of 2014, the Buffalo City Council decided to cut expenses and make a change in leadership, replacing its longtime golf course manager with its then-superintendent Eric Ritter on an interim basis. Ritter will now manage the responsibilities previously held by two people.

In an interview,⁶⁷ Ritter shared that there are 15 competing golf courses within a 30-mile radius of Buffalo. A surplus of courses combined with reduced consumer discretionary spending during the recent economic recession has led to somewhat of a race-to-the-bottom in regards to prices. Golfers are now looking for discounts, yet course managers must still maintain a high degree of standards in regards to course maintenance and service. With fewer people taking off work to golf during the weekdays, golf courses are competing with one another and the weather to attract golfers on weekends. Ritter also discussed that there is a shortage of qualified golf course professionals, as many have left the industry altogether due to decreased wages and uncertainty about the future of many golf courses. Despite tough times, Ritter suggested that municipal-owned courses have some benefits over private courses, as they have greater resources that can be utilized to offset operating costs, such as utilizing city administration for accounting assistance and sometimes the Streets and Parks Department for equipment and labor. The golf course has also received strong support from the city council and community members, even though it hasn't performed well financially. In the years to come, Ritter predicts that Wild Marsh Golf Course will explore adding a driving range and practice facility in order to attract a younger audience. There will also be changes made to the course in order to cut down on maintenance costs and to accommodate for different skill levels, including newcomers to the sport.

⁶⁷ Eric Ritter, interview by Noah J. Wiedenfeld, March 21, 2015.

Table 11. Buffalo Municipal Golf Course's Annual Net Income

Year	Operating Revenue	Operating Expense	Non-operating Revenue	Non-operating Expense	Net Income	Net Transfer
2004	\$861,758.00	\$827,084.00	\$8,742.00	\$71,244.00	-\$27,828.00	\$0.00
2005	\$1,282,993.00	\$1,609,229.00	\$186,635.00	\$185,048.00	-\$324,649.00	\$0.00
2006	\$1,397,793.00	\$1,735,855.00	\$3,009.00	\$219,098.00	-\$554,151.00	\$0.00
2007	\$1,009,273.00	\$1,436,952.00	\$0.00	\$243,083.00	-\$670,762.00	\$0.00
2008	\$763,988.00	\$1,257,476.00	\$0.00	\$225,126.00	-\$718,614.00	\$0.00
2009	\$696,383.00	\$1,004,110.00	\$0.00	\$215,147.00	-\$522,874.00	\$0.00
2010	\$771,063.00	\$1,005,619.00	\$400.00	\$167,869.00	-\$402,025.00	\$0.00
2011	\$663,579.00	\$1,030,432.00	\$0.00	\$193,607.00	-\$560,460.00	\$0.00
2012	\$566,688.00	\$920,573.00	\$0.00	\$185,269.00	-\$539,154.00	\$0.00
2013	\$587,027.00	\$1,000,887.00	-\$3,763.00	\$174,939.00	-\$592,562.00	\$0.00

Source: Minnesota State Auditor

According to the City of Buffalo's 2013 Comprehensive Annual Financial Report,⁶⁸ the total net position of the golf course is – \$4,942,550. Using a median home value of \$172,200 from the American Community Survey⁶⁹ and tax information from the Minnesota State Auditor,⁷⁰ it was determined that the median homeowner paid \$771.49 in city property taxes in 2013. Although no net transfer was recorded in the data provided by the State Auditor, a hypothetical net transfer of \$592,562 (the net loss of the golf course in 2013) from the general fund to the golf course fund would cost the median homeowner an additional \$85.84 in city property taxes.

Table 12. Buffalo Municipal Golf Course's Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$172,200	\$21,742	\$150,458	0.01	\$1,504.58	0.51	\$771.49	\$5,326,207	\$10,387,252
\$172,200	\$21,742	\$150,458	0.01	\$1,504.58	0.57	\$857.33	\$5,918,769	\$10,387,252

Source: Minnesota State Auditor

⁶⁸ "City of Buffalo 2013 Comprehensive Annual Financial Report," accessed May 1, 2015, <http://www.ci.buffalo.mn.us/finance>

⁶⁹ U.S. Census Bureau, 2013 American Community Survey

⁷⁰ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

According to Wright County property tax information,⁷¹ Wild Marsh Golf Course had a total market value of \$817,700 in 2013. Given a net tax levy of \$5,326,207 and class rates of 1.5 percent for the first \$150,000 and 2 percent for the remaining \$667,700, the golf course would pay \$8,001.17 in property taxes to the City of Buffalo if it was privately owned.

Edina

Located southwest of Minneapolis, the City of Edina has long been known as one of the most affluent suburbs in the metropolitan region. According to the 2010 Census, the City of Edina has a population of 47,941 people with a median age of 45.2 years. The same data also indicates that 20.7 percent of the population is age 65 or older, while 21.3 percent is below the age of 16. The 2013 American Community Survey estimates that 67.2 percent of the population has a bachelor's degree or higher, the median household income is \$84,349, and 5.4 percent of the civilian labor force is unemployed. Edina provides an interesting example of a community that owns and operates multiple municipal golf courses and has had to make difficult choices recently regarding both a course closing and an expensive renovation project.

Edina opened its first municipal golf course, Braemar Golf Course, in 1964. Fifty years later, the city was managing not just an expanded and award-winning 27-hole Braemar Golf Course, but also a driving range, two executive courses, and an indoor golf dome. The facilities also include a pro shop, clubhouse, and the Tin Fish Restaurant. Financially, Edina's golf enterprises have produced both positive and negative net income over the years. There was a net loss totaling almost \$1 million from 1991 to 1995, followed by five years of net gains totaling about \$1.5 million. Operating revenues climbed from \$768,220 in 1986 to over \$3.1 million just

⁷¹ "Property Tax Search," *Wright County*, accessed April 10, 2015, <https://intranet2.co.wright.mn.us/proptax2/default.asp>

ten years later. Operating revenues were steady at around \$3.5 million until recently, as they have declined each year since 2008, dropping from \$3.6 million to \$2.7 million in 2013. Golf activities saw a net loss of almost half a million dollars in 2013.

Table 13. Edina Municipal Golf Courses' Annual Net Income

Year	Operating Revenue	Operating Expense	Non-operating Revenue	Non-operating Expense	Net Income	Net Transfer
1986	\$768,220.00	\$768,731.00	\$0.00	\$99,512.00	-\$100,023.00	\$0.00
1987	\$956,737.00	\$818,414.00	\$58,701.00	\$97,690.00	\$99,334.00	\$0.00
1988	\$1,241,809.00	\$960,552.00	\$2,231.00	\$112,842.00	\$170,646.00	\$0.00
1989	\$1,475,429.00	\$1,198,174.00	\$101,233.00	\$231,715.00	\$146,773.00	\$0.00
1990	\$1,632,586.00	\$1,327,941.00	\$119,435.00	\$277,351.00	\$146,729.00	\$0.00
1991	\$1,663,374.00	\$1,626,862.00	\$113,406.00	\$274,228.00	-\$124,310.00	\$0.00
1992	\$1,817,182.00	\$1,630,308.00	\$92,989.00	\$292,460.00	-\$12,597.00	\$0.00
1993	\$1,824,039.00	\$1,641,277.00	\$200,320.00	\$630,214.00	-\$247,132.00	\$106,894.00
1994	\$2,256,105.00	\$2,041,470.00	\$146,760.00	\$595,609.00	-\$234,214.00	\$80,321.00
1995	\$2,533,115.00	\$2,303,439.00	\$133,189.00	\$580,015.00	-\$217,150.00	\$117,583.00
1996	\$2,962,410.00	\$2,511,761.00	\$149,573.00	\$516,342.00	\$83,880.00	\$0.00
1997	\$3,170,255.00	\$2,523,059.00	\$109,884.00	\$573,050.00	\$184,030.00	\$0.00
1998	\$3,452,757.00	\$2,685,599.00	\$8,424.00	\$329,113.00	\$446,469.00	\$40,000.00
1999	\$3,512,249.00	\$2,688,219.00	\$109,214.00	\$388,938.00	\$544,306.00	\$35,000.00
2000	\$3,954,008.00	\$3,356,332.00	\$115,010.00	\$453,329.00	\$259,357.00	\$0.00
2001	\$3,651,525.00	\$3,378,462.00	\$120,284.00	\$427,164.00	-\$33,817.00	\$0.00
2002	\$3,427,457.00	\$3,169,030.00	\$46,274.00	\$409,801.00	-\$105,100.00	\$0.00
2003	\$3,658,239.00	\$3,376,446.00	\$26,289.00	\$178,797.00	\$129,285.00	\$8,000.00
2004	\$3,537,622.00	\$3,346,955.00	\$6,163.00	\$161,786.00	\$35,044.00	\$0.00
2005	\$3,482,840.00	\$3,435,485.00	\$159.00	\$144,822.00	-\$97,308.00	\$0.00
2006	\$3,643,803.00	\$3,521,966.00	\$2,817.00	\$130,203.00	-\$5,549.00	\$0.00
2007	\$3,591,705.00	\$3,525,168.00	\$41,884.00	\$96,809.00	\$11,612.00	\$0.00
2008	\$3,680,584.00	\$3,537,380.00	\$14,505.00	\$75,102.00	\$82,607.00	-\$170,000.00
2009	\$3,658,674.00	\$3,542,048.00	\$101,916.00	\$46,783.00	\$171,759.00	-\$170,000.00
2010	\$3,443,204.00	\$3,543,558.00	\$5,222.00	\$18,015.00	-\$113,147.00	-\$100,000.00
2011	\$3,281,225.00	\$3,383,110.00	\$9,052.00	\$12,375.00	-\$105,208.00	-\$100,000.00
2012	\$3,225,591.00	\$3,286,516.00	\$2,623,627.00	\$6,676.00	\$2,556,026.00	-\$100,000.00
2013	\$2,711,743.00	\$3,180,716.00	\$20,532.00	\$19,246.00	-\$467,687.00	-\$468,681.00

Source: Minnesota State Auditor

In 2011, the City of Edina hired the National Golf Foundation (NGF) to review its operations and make recommendations⁷² to ensure the long-term financial viability of the golf enterprises. NGF did not recommend closing or privatizing any part of the business, but rather investing about \$350,000 into upgrading the Braemar Golf Course and modernizing marketing efforts. After determining that Braemar Golf Course required much more expensive renovations and that two executive golf courses weren't necessary, city officials proposed closing the Fred Richards Golf Course in February of 2014. Known locally as "The Fred," the course was considered to be beginner-friendly and inviting for both older golfers and young people, whereas the other executive course is hilly and more popular with experienced golfers. Despite many supporters of "The Fred" appearing before the city council and also organizing a large social media campaign, the city council voted at its March meeting 3-2 in favor of converting the golf course into a park.⁷³ Mayor Jim Hovland voted against the proposal, and suggested that the fast decision had "shaken the trust and confidence of the public."

Following two public open houses and much community input over the summer months, city officials proposed creating a park that includes both passive recreation, such as trails and wildflower gardens, and areas for active recreation, such as soccer and lacrosse.⁷⁴ The Fred Richards Golf Course closed in October of 2014. The cost of converting it into a park will not be finalized until a formal master plan is approved in June of 2015, but early estimates call for over \$6 million in city spending. Meanwhile, changes to the Braemar Golf Course have been approved and construction is anticipated to begin in July of 2015. Major upgrades will also be

⁷² National Golf Foundation, "City of Edina Golf System Strategic Outlook and Analysis."

⁷³ Mary Jane Smetanka, "Edina Council Votes to Close Red Richards Golf Course, *Star Tribune*, accessed on March 10, 2015, <http://www.startribune.com/local/west/251080201.html>

⁷⁴ John Reinan, "Golf Ends at The Fred," *Star Tribune*, accessed on March 10, 2015, <http://www.startribune.com/local/west/278089571.html>

made to the driving range and remaining executive course. City officials are clearly hopeful that the saying “you must spend money to make money” will be proven true.

In an interview,⁷⁵ General Manager Joe Abood said that the planned upgrades to the remaining facilities (minus Fred Richards Golf Course) will likely cost \$5-8 million. Such high capital investment would not be possible without strong support from the city council and the community as whole. Abood said that while business has declined in recent years and more golfers are interested in playing 9 holes rather than 18 holes, golf remains very much a game of tradition. Thus, golfers continue to expect a superior product and great customer service. If unsatisfied, avid golfers can quickly take their business to many other courses within a 15 to 20 minute drive away.

According to the City of Edina’s 2013 Comprehensive Annual Financial Report,⁷⁶ the total net position of the golf course is \$4,992,844. Using a median home value of \$387,500 from the American Community Survey⁷⁷ and tax information from the Minnesota State Auditor,⁷⁸ it was determined that the median homeowner paid \$920.02 in city property taxes in 2013. A net transfer of \$468,681 (the net loss of the golf course in 2013) from the general fund to the golf course fund cost the median homeowner an additional \$16.95 in city property taxes when compared to how much one would have paid without a transfer.

⁷⁵ Joe Abood, interview by Noah J. Wiedenfeld, March 19, 2015.

⁷⁶ “City of Edina 2013 Comprehensive Annual Financial Report,” accessed May 1, 2015, <http://edinamn.gov/?section=finance>.

⁷⁷ U.S. Census Bureau, 2013 American Community Survey

⁷⁸ “City Financial Data Search and Comparison,” *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

Table 14. Edina Municipal Golf Courses' Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$387,500	\$2,365	\$385,135	0.01	\$3,851.35	0.24	\$920.02	\$25,448,111	\$106,529,983
\$387,500	\$2,365	\$385,135	0.01	\$3,851.35	0.23	\$903.07	\$24,979,430	\$106,529,983

Source: Minnesota State Auditor

Mendota Heights

The City of Mendota Heights is a wealthy suburb located less than ten miles south of St. Paul. According to the 2010 Census, Mendota Heights has a population of 11,071 people with a median age of 47.5 years.⁷⁹ The same data suggests that 17.7 percent of the population is age 65 or older, while 19.1 percent of the population is below the age of 16 years. The 2013 American Community Survey estimates that 57.6 percent of the population has a bachelor's degree or higher, the median household income is \$95,083, and 5.7 percent of the civilian labor force is unemployed.⁸⁰ The City came to own its golf course fairly recently after some unique political events, and has since done fairly well financially in comparison to most municipal golf courses across the state of Minnesota.

The present municipal-owned golf course, Par 3, was actually operated under private ownership from the 1960s through 2003, at which time the owner sought to sell the golf course to a developer to convert the golf course into a 30-home residential development. The golf course was not doing well financially at this time due to increased competition from new courses in neighboring towns and rising operating costs, among other factors. However, the owner's request to rezone the property from "golf course" to "low-density residential" was denied by the

⁷⁹ U.S. Census Bureau, American FactFinder, 2010 Census Results

⁸⁰ U.S. Census Bureau, 2013 American Community Survey

city planning commission and city council, who instead wanted to avoid losing such a large open space to development. The city council stated that amending the comprehensive plan to accommodate the owner's request would have "an adverse impact on the health, safety, and general welfare of the citizens of the community and the surrounding land."⁸¹ The issue ultimately proceeded to the Minnesota State Supreme Court, which in 2006 upheld a district ruling that said while the City of Mendota Heights had every right to deny the golf course owner's request, the City needed to reconcile differences between its conflicting zoning ordinances and comprehensive plan. While it worked to make these necessary changes, city officials pursued a new course of action and presented voters with a referendum to purchase the golf course from the private owner for \$2.8 million. The golf course owner was a "very open and forthcoming negotiator" during purchase talks, which was a surprise to city officials since he had filed a lawsuit against them just three years prior.⁸² In a special election, residents voted 1,865 to 1,611 in favor of purchasing the golf course.⁸³

In its first three years of operation, the municipal golf course produced modest profits totaling over \$50,000. However, its operating revenue has decreased for five consecutive years from a high of \$187,755 in 2008 to a low of \$143,895 in 2013. Since 2010, total net losses have exceeded \$60,000. According to its more detailed annual report, about 63 percent of Par 3's operating revenue came from green fees, with the remainder coming from golf programs (such as lessons, tournaments, and leagues) and concession sales.⁸⁴ Green fees are currently \$11 on

⁸¹ "Mendota Golf LLP v. City of Mendota Heights," *FindLaw*, accessed on March 12, 2015, <http://caselaw.findlaw.com/mn-supreme-court/1096242.html>

⁸² Seth Loy, "MH Residents to Decide Fate of Par 3," *Lillie Suburban Newspapers*, accessed April 1, 2015, <http://www.bulletin-news.com/print/168035>

⁸³ Brian Bonner, "Mendota Heights/Voters OK City's Purchase of Golf Course," *Pioneer Press*, accessed April 1, 2015, http://www.twincities.com/dakota/ci_5743899

⁸⁴ "Par 3 2013 Annual Report," accessed May 1, 2015, <http://public.mendota-heights.com/weblink8/0/doc/100325/Page1.aspx>.

weekdays and \$13 on weekends and holidays, with seniors and youth receiving a one dollar discount every day.

Table 15. Mendota Heights Municipal Golf Course's Annual Net Income

Year	Operating Revenue	Operating Expense	Non-operating Revenue	Non-operating Expense	Net Income	Net Transfer
2007	\$103,071.00	\$84,068.00	\$3,264.00	\$0.00	\$22,267.00	-\$2,683,589.00
2008	\$187,755.00	\$167,187.00	\$2,328.00	\$0.00	\$22,896.00	\$0.00
2009	\$184,715.00	\$180,390.00	\$2,177.00	\$0.00	\$6,502.00	\$0.00
2010	\$176,780.00	\$188,839.00	\$743.00	\$0.00	-\$11,316.00	\$0.00
2011	\$148,403.00	\$186,399.00	\$559.00	\$0.00	-\$37,437.00	\$0.00
2012	\$146,603.00	\$161,532.00	\$5,805.00	\$0.00	-\$9,124.00	\$0.00
2013	\$143,895.00	\$147,269.00	-\$300.00	\$0.00	-\$3,674.00	\$0.00

Source: Minnesota State Auditor

In an interview,⁸⁵ golf course manager Sloan Wallgren shared that most of the people who play golf at Par 3 are local residents, with many of them golfing on a weekly basis. Par 3 is popular due to the fact that it is only 9 holes and can perhaps be described as a less challenging course, which allows for regulars to play at a fairly quick pace and for newcomers to the sport to learn the game without feeling too intimidated or discouraged. There are many nearby golf courses that compete with Par 3, including Thompson Oaks in West St. Paul, Lost Spur Golf Course in Eagan, and Inver Wood Golf Course in Inver Grove Heights. In addition to issues like unpredictable weather and high operating costs, Wallgren said that one challenge that Par 3 is attempting to address is the lack of young people interested in the sport. Par 3 has increased the number of clinics and youth leagues offered, and recently added foot golf, a hybrid of golf and soccer, in an effort to bring more young people to the course. Wallgren added that he feels the community benefits from municipal golf not just through the recreational opportunity provided, but the impact the course has on property values and the fact that the community has a greater

⁸⁵ Sloan Wallgren, interview by Noah J. Wiedenfeld, March 20, 2015.

voice in prompting changes to the course than if it were privately owned. No major changes to Par 3 are planned in the upcoming years.

According to the Mendota Heights 2013 Comprehensive Annual Financial Report,⁸⁶ the total net position of the golf course is \$2,730,665. Using a median home value of \$344,800 from the American Community Survey⁸⁷ and tax information from the Minnesota State Auditor,⁸⁸ it was determined that the median homeowner paid \$1020.24 in city property taxes in 2013.

Although no net transfer was recorded in the data provided by the State Auditor, a hypothetical net transfer of \$3,674 (the net loss of the golf course in 2013) from the general fund to the golf course fund would cost the median homeowner only an extra \$0.63 in city property taxes.

Table 16. Mendota Heights Municipal Golf Course's Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$344,800	\$6,208	\$338,592	0.01	\$3,385.92	0.30	\$1,020.24	\$5,897,559	\$19,572,568
\$344,800	\$6,208	\$338,592	0.01	\$3,385.92	0.30	\$1,020.87	\$5,901,233	\$19,572,568

Source: Minnesota State Auditor

According to property tax information from Dakota County,⁸⁹ Par 3 has a current taxable market valuation of \$521,500. Given a net tax levy of \$5,897,559 and class rates of 1.5 percent for the first \$150,000 and 2 percent for the remaining \$371,500 the golf course would pay \$2,916.75 in property taxes to the City of Mendota Heights if it was privately owned.

⁸⁶ City of Mendota Heights 2013 Comprehensive Annual Financial Report

⁸⁷ U.S. Census Bureau, 2013 American Community Survey

⁸⁸ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

⁸⁹ "Property Information Search," *Dakota County*, accessed April 2, 2015, <http://gis2.co.dakota.mn.us/maps/property.htm>.

Pierz

The City of Pierz is a small community located in Central Minnesota, about thirty miles north of St. Cloud and south of Brainerd. According to the 2010 Census, Pierz has a population of 1,393 people with a median age of 42.5 years.⁹⁰ The same data indicates that 27.3 percent of the population is age 65 or older, while 21.2 percent of the population is below the age of 16. According to the 2013 American Community Survey, only 8.8 percent of the population has a bachelor's degree or higher, the median household income is \$34,432, and 4.7 percent of the civilian labor force is unemployed.⁹¹ While the municipal golf course in Pierz has seen its share of ups and downs, it is one of the few municipal golf courses in Minnesota that has been profitable recently, having been in the black for the past eight consecutive years.

The Pierz Golf Club was created during the 1930s by the Works Progress Administration as part of the New Deal. Since its inception, the course has been maintained as a 9-hole course. Given its age and relatively few changes over the years, the golf course has very mature trees and is considered by many to be a scenic gem. One unique aspect about the Pierz Golf Club is the adjacent campground, which features 38 campsites, reservable park shelters, and a beach and playground for families to enjoy. In an interview,⁹² Park Superintendent Daniel Baert suggested that much of the financial success of the golf course can be attributed to the campground.

Data from the Minnesota State Auditor shows that the Pierz Golf Club was profitable from 1987 through 2000, with annual revenue nearly doubling during that time. Net profits fluctuated between \$50,000 and \$95,000 depending largely on the weather and economy. The business experienced a downturn for a few years, losing over \$80,000 from 2001 to 2005 and

⁹⁰ U.S. Census Bureau, American FactFinder, 2010 Census Results

⁹¹ U.S. Census Bureau, 2013 American Community Survey

⁹² Daniel Baert, interview by Noah J. Wiedenfeld, March 2015

requiring transfers from the city's general fund to stay afloat. However, new management was brought on board and the golf course has had a positive net income each year since. Annual revenue has been around \$250,000 for the past five years, with net income returning near to its previous levels. It should be noted that the golf course only saw a marginal decrease in business due to the economic recession, even generating a net income of over \$85,000 in 2009 when most golf courses saw dramatic losses.

Table 17. Pierz Municipal Golf Course's Annual Net Income

Year	Operating Revenue	Operating Expense	Non-operating Revenue	Non-operating Expense	Net Income	Net Transfer
1991	\$106,405.00	\$49,879.00	\$4,393.00	\$0.00	\$60,919.00	\$35,000.00
1992	\$120,851.00	\$70,075.00	\$3,781.00	\$0.00	\$54,557.00	\$0.00
1993	\$135,384.00	\$87,840.00	\$1,901.00	\$0.00	\$49,445.00	\$0.00
1994	\$134,845.00	\$83,048.00	\$5,917.00	\$0.00	\$57,714.00	\$0.00
1995	\$150,773.00	\$87,365.00	\$4,364.00	\$0.00	\$67,772.00	\$150,000.00
1996	\$157,781.00	\$106,337.00	\$4,470.00	\$0.00	\$55,914.00	\$0.00
1997	\$178,549.00	\$103,281.00	\$11,200.00	\$0.00	\$86,468.00	\$0.00
1998	\$195,485.00	\$110,519.00	\$10,062.00	\$0.00	\$95,028.00	\$0.00
1999	\$158,424.00	\$128,513.00	\$18,786.00	\$0.00	\$48,697.00	\$0.00
2000	\$230,100.00	\$148,366.00	\$13,500.00	\$0.00	\$95,234.00	\$0.00
2001	\$165,182.00	\$177,378.00	\$0.00	\$0.00	-\$12,196.00	\$0.00
2002	\$155,960.00	\$195,184.00	\$32,308.00	\$0.00	-\$6,916.00	-\$30,000.00
2003	\$160,650.00	\$196,947.00	\$22,462.00	\$0.00	-\$13,835.00	-\$20,000.00
2004	\$160,838.00	\$204,884.00	\$21,511.00	\$0.00	-\$22,535.00	-\$33,035.00
2005	\$147,647.00	\$207,295.00	\$27,287.00	\$0.00	-\$32,361.00	-\$16,000.00
2006	\$158,668.00	\$169,389.00	\$30,837.00	\$0.00	\$20,116.00	-\$35,000.00
2007	\$206,568.00	\$181,366.00	\$34,953.00	\$0.00	\$60,155.00	-\$9,733.00
2008	\$182,260.00	\$170,865.00	\$36,877.00	\$0.00	\$48,272.00	\$0.00
2009	\$259,260.00	\$210,462.00	\$36,798.00	\$0.00	\$85,596.00	\$0.00
2010	\$245,210.00	\$210,238.00	\$34,301.00	\$0.00	\$69,273.00	\$0.00
2011	\$246,324.00	\$234,838.00	\$34,571.00	\$0.00	\$46,057.00	\$0.00
2012	\$269,179.00	\$237,929.00	\$36,213.00	\$0.00	\$67,463.00	\$0.00
2013	\$253,366.00	\$227,754.00	\$16,787.00	\$882.00	\$41,517.00	\$0.00

Figure 22. Pierz Municipal Golf Course's Annual Net Income. Source: Minnesota State Auditor

Baert noted that “the local regulars keep the lights on, but the out-of-towners and campers make it profitable.” With this in mind, he believes the golf course’s success is also related to the price of fuel. Avid golfers will travel, and thus every golf course is a competitor regardless of its proximity, although Eagle’s Landing in Fort Ripley is the primary competition for the Pierz Golf Club. In addition to the campground, Baert believes much of the recent success can be linked to his and many volunteers’ efforts to increase the number of junior programs and to work with local high school teams. From a management perspective, Baert says it can be difficult to work for a municipal golf course because he has multiple bosses to report to, including the Parks Board and the City Council. Depending on the outcomes of biannual elections, priorities can change and sometimes elected officials have no golf experience or interest whatsoever, whereas a private owner would likely be more of a golf enthusiast. However, given the longstanding success of the Pierz Golf Club, especially when most municipal golf courses have struggled, it is likely that there will be continued support in the future. In fact, Baert shared that the City is even exploring the possibility of purchasing an additional 60 acres of property to further expand either the golf course or the campgrounds.

Using a median home value of \$129,400 from the American Community Survey⁹³ and tax information from the Minnesota State Auditor,⁹⁴ it was determined that the median homeowner paid \$427.15 in city property taxes in 2013. Although no net transfer was recorded in the data provided by the State Auditor, a hypothetical net transfer of \$41,517 (the net income of the golf course in 2013) from the golf course to the general fund would save the median homeowner \$63.22 in city property taxes.

⁹³ U.S. Census Bureau, 2013 American Community Survey

⁹⁴ “City Financial Data Search and Comparison,” *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

Table 18. Pierz Municipal Golf Course's Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$129,400.00	\$25,594.00	\$103,806.00	0.01	\$1,038.06	0.41	\$427.15	\$280,515.00	\$681,704.00
\$129,400.00	\$25,594.00	\$103,806.00	0.01	\$1,038.06	0.35	\$363.93	\$238,998.00	\$681,704.00

Source: Minnesota State Auditor

Property tax information from Morrison County⁹⁵ shows that the 2013 taxable property valuation of the Pierz Golf Club was approximately \$501,900. Given a net tax levy of \$280,515 and class rates of 1.5 percent for the first \$150,000 and 2 percent for the remaining \$351,900 the golf course would pay \$3,393.30 in property taxes to the City of Pierz if it was privately owned.

Sandstone

The City of Sandstone is located in East-Central Minnesota, about forty miles east of Mille Lacs Lake. According to the 2010 Census, the City of Sandstone has a population of 2,849 people with a median age of 34.9 years.⁹⁶ The same data also indicates that only 9.8 percent of the population is age 65 or older, while only 13.1 percent of the population is below the age of 16. The 2013 American Community Survey estimates that only 12.6 percent of the population has a bachelor's degree or higher, the median household income is \$42,788, and 10.4 percent of the civilian labor force is unemployed.⁹⁷ Sandstone is one of many cities that moved away from operating golf courses as a result of large financial losses, selling its 9-hole municipal golf course to a private owner in 2012.

⁹⁵ "Morrison County, " accessed May 1, 2015, <http://beacon.schneidercorp.com/Application.aspx?AppID=104&LayerID=1435&PageTypeID=4&PageID=805&Q=1516045445&KeyValue=420085105>

⁹⁶ U.S. Census Bureau, American FactFinder, 2010 Census Results

⁹⁷ U.S. Census Bureau, 2013 American Community Survey

The Sandstone Area Golf Course was originally established in the 1930s and had sand greens until the 1980s. The City of Sandstone purchased the golf course in the mid-1990s, and invested in major renovations of the course as well as a new clubhouse. Early on, the transaction seemed like a wise investment, as the sport of golf was gaining in popularity and the business was profitable each year until 2002, with annual net income averaging almost \$40,000. The City even purchased an additional 60 acres of land so that it might expand the course to 18 holes. However, the golf course experienced net losses from 2002 until 2011 totaling almost half a million dollars. In 2011, the City signed a lease agreement with a volunteer community association to manage the daily operations of the golf course in an effort to cut costs. After yet another year of losses, city officials attempted to sell the golf course in the fall of 2011, but a large group of community members, including many from the local Lions Club who were avid golfers and who held their monthly meetings at the clubhouse, fought back and accused city officials of secretly trying to sell the course without notifying the public. In fact, at the November 2011 City Council meeting,⁹⁸ when the final purchase offer was to be formally accepted, the prospective buyer walked out, stating that he no longer felt welcome in the community following the public comments made during the meeting. Following this surprise turn of events, the City eventually found a new buyer and officially sold the golf course in February of 2012.

⁹⁸ City Council Meeting Minutes, *City of Sandstone*, November 2011 Meeting. Accessed May 1, 2015, <http://www.sandstone.govoffice.com>.

Table 19. Sandstone Municipal Golf Course's Annual Net Income

Year	Operating Revenue	Operating Expense	Non-operating Revenue	Non-operating Expense	Net Income	Net Transfer
1996	\$94,998.00	\$96,548.00	\$13,824.00	\$5,216.00	\$7,058.00	\$2,967.00
1997	\$118,094.00	\$85,560.00	\$16,967.00	\$4,981.00	\$44,520.00	\$2,765.00
1998	\$151,419.00	\$114,177.00	\$18,445.00	\$6,474.00	\$49,213.00	\$2,700.00
1999	\$141,525.00	\$127,620.00	\$14,167.00	\$5,779.00	\$22,293.00	\$2,631.00
2000	\$166,695.00	\$144,214.00	\$26,057.00	\$7,026.00	\$41,512.00	\$3,500.00
2001	\$155,163.00	\$151,059.00	\$34,397.00	\$4,312.00	\$34,189.00	\$3,500.00
2002	\$141,318.00	\$163,831.00	\$8,620.00	\$4,104.00	-\$17,997.00	\$3,690.00
2003	\$144,186.00	\$166,763.00	\$7,746.00	\$1,916.00	-\$16,747.00	\$0.00
2004	\$148,446.00	\$177,145.00	\$701.00	\$3,738.00	-\$31,736.00	\$0.00
2005	\$145,542.00	\$213,029.00	\$226.00	\$4,191.00	-\$71,452.00	\$0.00
2006	\$151,281.00	\$202,919.00	\$0.00	\$3,938.00	-\$55,576.00	\$0.00
2007	\$153,429.00	\$200,149.00	\$0.00	\$3,678.00	-\$50,398.00	\$0.00
2008	\$158,723.00	\$211,889.00	\$0.00	\$6,388.00	-\$59,554.00	\$0.00
2009	\$177,381.00	\$207,769.00	\$0.00	\$6,183.00	-\$36,571.00	\$0.00
2010	\$135,561.00	\$209,360.00	\$0.00	\$5,204.00	-\$79,003.00	\$0.00
2011	\$115,042.00	\$183,415.00	\$0.00	\$3,815.00	-\$72,188.00	\$0.00
2012	\$2,988.00	\$36,068.00	\$86,651.00	\$0.00	\$53,571.00	-\$179,477.00

Source: Minnesota State Auditor

In an interview,⁹⁹ longtime City Administrator Sam Griffith said that high operating costs, increased competition from new golf courses, and changes in discretionary spending of former casual golfers were to blame for the golf course's poor financial performance. Looking back at the situation, Griffith said he feels that "city government isn't set up to run a business." To illustrate with an example, he explained that waiting until the next city council meeting to approve of a decision is not efficient when staff need to be hired immediately in order to mow the grass, or when equipment needs to be purchased. Moving forward, Griffith expressed reservations about the future of the now privately owned golf course, especially given the lack of interest in the sport among younger players, the challenge of keeping green fees low, and the

⁹⁹ Sam Griffith, interview by Noah J. Wiedenfeld, March 2015

unpredictability of the golfing habits of soon-to-be retirees from the Baby Boomer generation. Using a median home value of \$99,400 from the American Community Survey¹⁰⁰ and tax information from the Minnesota State Auditor,¹⁰¹ it was determined that the median homeowner paid \$559.18 in city property taxes in 2012. The transfer of \$179,477 from the general fund to the golf course cost the median homeowner an additional \$225.18 in city property taxes.

Table 20. Sandstone Municipal Golf Course's Impact on Property Taxes

Estimated Market Value	Homestead Market Value Exclusion	Taxable Market Value	Class Rate	Net Tax Capacity	Tax Rate	Net Tax	Net Tax Levy	Taxable Tax Capacity
\$99,400.00	\$28,294.00	\$71,106.00	0.01	\$711.06	0.79	\$559.18	\$445,698.00	\$566,750.00
\$99,400.00	\$28,294.00	\$71,106.00	0.01	\$711.06	0.47	\$334.00	\$266,221.00	\$566,750.00

Source: Minnesota State Auditor

Property tax information from Pine County¹⁰² shows that the 2012 taxable market value of the golf course clubhouse was \$115,200. The forty-acre golf course was valued at \$150,400, for a combined taxable market value of \$265,600. The City of Sandstone sold the two properties together for a total of \$400,000. Given a net tax levy of \$266,221 and class rates of 1.5 percent for the first \$150,000 and 2 percent for the remaining \$351,900 the golf course would pay \$2,142.92 in property taxes to the City of Sandstone under private ownership.

Analysis

Given the declining interest in the sport of golf both nationwide and in Minnesota, it is not unexpected to find that municipal golf courses are struggling financially. Although Edina's municipal golf operations required a general fund transfer of almost half a million dollars, the

¹⁰⁰ U.S. Census Bureau, 2013 American Community Survey

¹⁰¹ "City Financial Data Search and Comparison," *Minnesota State Auditor*, accessed April 2, 2015, <http://www.osa.state.mn.us/Search/CitySearch.aspx>

¹⁰² "Pine County," accessed May 1, 2015, <http://beacon.schneidercorp.com/Application.aspx?AppID=197&LayerID=2640&PageTypeID=4&PageID=1492&Q=284813761&KeyValue=450033001>

median homeowner only paid an additional \$16.95 in property taxes. The impact on property taxes was felt more by homeowners in Buffalo (additional \$85.84) and Sandstone (additional \$225.18). Mendota Heights is nearly breaking even with their operations, and would have only required an additional \$0.63 in property taxes per median homeowner if a transfer was made. Meanwhile, the municipal golf course in Pierz has seen a positive net income in recent years, and could have saved the median homeowner \$63.22 in city property taxes.

While Sandstone recently sold their municipal golf course to a private owner, it appears unlikely that the other case study cities will follow suit. Mendota Heights residents voted in favor of purchasing the golf course not too long ago, Edina has significant capital-intensive course improvements planned for the upcoming year, and the municipal golf course in Pierz is one of the few courses that is performing well. Buffalo could consider selling its golf course, although one might wonder how easy it would be to find a willing buyer given the surplus of nearby competitors and the course's poor financial performance. Based on the taxable market value of the property, private ownership would only generate about \$8,000 in property taxes for the city. With golf operations having a negative net position of nearly \$5 million, elected officials must decide whether to cut their losses and try to get as much as possible for the golf course, or hope that interest in the sport picks up or competitors close. A possible compromise might be to convert the current 18 holes down to 9 holes and sell some of the property for residential development in order to recoup some of the losses.

Considering that golfers tend to be older and wealthier than the average person, Buffalo and Sandstone appear to be at slight disadvantage. The median age of Buffalo and Sandstone residents is 34.3 years and 34.9 years, respectively. Thus, the two cities are relatively younger than the residents of Pierz (42.5), Edina (45.2), and Mendota Heights (47.5). Edina and Mendota

Heights also have significantly higher median household income levels than Buffalo and Sandstone. Pierz is a noteworthy exception, as its median household income of \$34,432 is much less than the other case study cities, including barely one-third of the median household income for Mendota Heights (\$95,083). With its adjacent camping site, the golf course seems to appeal to those golfers looking to get away from the hustle and bustle of the metro region and perhaps include their family, as compared to a golfer who seeks to get in a quick round of golf after a long day of work. Buffalo's municipal golf course remains a traditional 18 holes and is considered to be quite challenging, a contrast in style compared to the many courses that are seeking to speed up play and appeal to a younger audience.

Conclusion

The ten case study examples discussed in this paper illustrate some of the many arguments that can be made for and against the operation of municipal liquor stores and golf courses, including the following:

Liquor Stores

The alcoholic beverage industry has shown steady growth over many years, even during weak economic times. The majority of municipal liquor stores in Minnesota have proven to not only be self-sufficient, but to generate additional revenue for local governments to use and keep property taxes lower. Municipal liquor stores may also have an advantage over private competitors in that city governments are less profit-driven and might be more willing to provide sufficient resources for facility upgrades and maintenance. Even when not profitable, municipal liquor stores enjoy some strong public support and hold historical significance to many.

At the same time, municipal liquor stores face the same challenges that private business owners confront, including rising insurance costs, finding and training skilled and reliable

employees, keeping up with the latest industry trends, and even theft. Despite possessing a geographic monopoly, a municipal liquor store's business trends are still subject to changes in demographics, especially in regards to age and income. Finally, just as a private sector business would face challenges when attempting to make long-term plans amid frequent leadership changes, so too can the direction of a municipal liquor store be uncertain due to election cycles and administrative turnover.

Golf Courses

Golf courses have a lot of historical significance to many longtime patrons. Even among non-golfers, there is value seen in preserving public recreation spaces, especially ones that are large and located amid otherwise developed property. With a rapidly aging population that may now have the time and money to play golf, an improving national and state economy, and new efforts to attract young golfers, it's possible that the golf industry has seen its lowest point and will rebound in the coming years.

At the same time, one cannot deny the statistics that illustrate the decreasing interest in the sport of golf and the financial losses experienced by both municipal and privately-owned golf courses. Taxpayers may soon be on the hook for additional property taxes if general fund transfers are needed to support depleted golf enterprise funds. While large investments for course improvements can be postponed temporarily, many city leaders will have to soon make a decision whether to make the investments needed to maintain high standards comparable to private golf courses, or to allow their municipal golf course to slowly deteriorate. An argument could also be made that elected officials who may not know anything about the sport might not be the most qualified people to make decisions that cost millions of dollars, as compared to seemingly more simple decisions such as the operating hours of a liquor store.

Enterprise Fund Activities

Much of the political debate regarding municipal liquor stores and golf courses is over the root issue of whether enterprise funds should provide a service to the community or be designed to provide additional revenue for the general fund. A consensus must be reached about whether a golf course should be viewed as a self-sufficient long-term investment, or seen in the same manner as parks and recreation. Even liquor stores, which are generally expected to be profitable, seem to be viewed as a public service by their most loyal customers despite underperforming financially. A “gray area” between enterprises for profit and quality of life enterprises seems to exist within some communities. Any city that is struggling to make a decision about continuing its liquor store or golf course should distinguish what the purpose is for each respective enterprise activity, and use this distinction to help guide its decision making.

Recommendations

Local government officials pondering the future of their respective enterprise activity should consider the following recommendations:

1. Know that determining the future of an enterprise activity is not just a financial decision.

Deciding whether or not to continue liquor store or golf enterprise activities does not just come down to the numbers, but rather the values and vision for the community. One can expect very vocal criticism from supporters of a liquor store or golf course who do not want to see operations end, even though they likely represent just a small minority of the community. At the same time, even when a liquor store or golf course is performing well financially, there can be critics who argue that government should not be involved in these activities. Enterprise activities that require subsidization from the general fund are not inherently “bad” as long as this reflects the larger

values of the community. Taxpayers might be willing to allow a golf course or liquor store to operate for years at a net loss because they believe that the benefits of recreation, open public spaces, and safe alcohol distribution are far greater in value. However, with most liquor stores and golf courses dating back many years, city officials should continually gauge current public opinion to ensure that today's budget is indicative of present values and not dictated by decisions made decades before. What was at one time "right" for the community may no longer be true as demographics, behaviors, and budgets change. The notion that budgeting is not about accounting but rather politics and finding common ground between competing values surely applies here and city officials should prepare accordingly.

2. Get educated about enterprise activities. One of the largest surprises to the author when originally contacting city officials was their admitted lack of knowledge about their respective municipal liquor store or golf course, and their quick referral to the appropriate manager. This anecdotal information seems to support liquor store and golf course managers who commented on the challenges of reporting to local leaders who had very little knowledge about the business. While it is important to hire managers who are experienced experts in these two industries, city officials should stay informed about the latest industry trends and local needs in order to not only be better supervisors but also better stewards of taxpayer dollars.

3. Find your niche and do it well. The municipal liquor stores and golf courses that are doing well seem to understand their niche in the market. Some golf courses appeal to skilled professionals while others appeal to beginners, just as some liquor stores appeal to tourists while others appeal to consumers of fine wine and craft beer. When businesses lack an identity or try to cater their services to meet the needs of many differing clientele, quality can suffer and they may not fully serve anyone well. Staff can become overwhelmed trying to keep up with so many

different activities. While diversifying services should not necessarily be discouraged, city officials should understand what the strengths of their liquor store or golf course are and ensure that these receive priority when it comes to making business decisions.

4. Expect to subsidize a golf course. In retrospect to popular opinion in the 1990s, do not expect a golf course to generate additional revenue to be transferred to the general fund. Even before the decline in the golf industry beginning in the early 2000s, golf courses were not a sure bet to have a positive net income. Operating costs are high, and any net income generated will likely need to be used in the future for expensive facility or course upgrades. If local officials and the public are not prepared to accept the fact that they will likely need to subsidize the cost of operating a golf course, or if they feel that such funds could be better used for other purposes, then they should reconsider whether to operate a municipal golf course.

5. Explore the possibility of eliminating on-sale liquor operations. Many municipalities have ended their on-sale liquor operations, with only small municipalities in Greater Minnesota still continuing this activity. While on-sale operations offer a higher profit margin than off-sale operations, they also pose the greatest risk due to high insurance costs and the possibility of being held liable for overserving. Many cities have dropped their on-sale operations but maintained their off-sale operations, as they still see the value in providing oversight of the larger quantity of purchases. Local government officials should question whether it is better for the city to take on this risk, especially for a city with a small budget that would be greatly impacted by an expensive lawsuit, or whether this risk should instead be left up to private businesses.

Limitations

This research has several limitations. First, it should be noted that all local government enterprise fund activities are unique, and thus one should not attempt to make generalizations solely from the ten case study cities discussed. The purpose of this research is not to attempt to determine whether or not municipal liquor stores and golf courses should be operated. Also, there are many economic factors that are not included when examining the impact that enterprise activities have on property taxes. In the case of liquor store privatization, it is unknown how many stores might relocate to a city if operations were discontinued, how much they would pay in terms of licensing fees, and what the impact of these businesses might be in regards to nearby businesses and local property values. Similarly, the full economic impact of a golf course is not estimated, as it would include additional sales from area restaurants and hotels, as well as surrounding home values. The hypothetical selling price of a golf course is also unknown, and would depend on whether or not it would remain a golf course or be converted into development.

Future Research

Future research could be conducted in order to determine whether municipal liquor stores actually do a better job of regulating and controlling the sale of alcohol than private businesses, a claim that is widely made by supporters. Research could be also conducted that determines the impact of a municipal golf course on surrounding property values as well as the local economy. Finally, future research could explore other unique types of municipal enterprise activities found in Minnesota or other states, including retail operations, swimming pools, and airports.

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